BLACKWATCH

ENERGY SERVICES TRUST

Management's Discussion and Analysis and Audited Financial Statements
for the years ended December 31, 2007 and 2006.

BLACKWATCH ENERGY SERVICES TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS AT MARCH 27, 2008

This Management's Discussion and Analysis ("MD&A") of BlackWatch Energy Services Trust (the "Trust" or "BlackWatch") is a review of financial condition and results of operations of the Trust and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007. Statements in this MD&A are based on information available as at March 27, 2008. The definitions of certain non-GAAP measures used within this MD&A have been included at the end of this MD&A. Readers should also refer to the "Forward-Looking Statements" legal advisory at the end of this MD&A.

Additional information concerning the Trust, including the Annual Information Form, is filed electronically on SEDAR and available at www.sedar.com.

OVERVIEW

The Trust was created on June 23, 2006, as an unincorporated open-ended investment trust under the laws of the Province of Alberta pursuant to a Trust Indenture dated June 23, 2006. The principal undertaking of the Trust is to engage in the oilfield services business. Operations commenced on August 4, 2006. On August 11, 2006, the Trust completed its initial public offering and began trading on the Toronto Stock Exchange under the symbol *BWT.UN.*

The Trust is a diversified energy services trust which provides a range of services to its customers operating in the western Canadian sedimentary basin ("WCSB"). Its services are currently provided through five operating divisions. To increase focus and operational consistency, the five divisions are operating in two distinct segments, one focused on downhole and reservoir services and the other on surface equipment and logistics including fluid products and services.

Management determined that pipeline construction services were not core to the strategy for the Trust and therefore, the assets of the pipeline construction division were sold in August 2007. The following provides a brief description of each of the operating divisions.

Drilling

The drilling division operates ten modern, highly mobile truck mounted single drilling rigs. Nine of the rigs are capable of drilling to depths of up to 1,700 meters and one is capable of drilling to 1,100 meters. Nine of the rigs have integrated drilling air compression packages used for underbalanced drilling. These rigs are also equipped with hydraulic top drive systems and hydraulic remote pipe handing systems, both of which improve operational efficiency and provide improved safety for rig personnel. The rig systems are of a modular design that is scalable to suit the functionality required for diverse well drilling programs. BlackWatch has a telescopic double pad rig under construction.

Until recently the drilling division derived most of its revenue from natural gas development. Late in 2007 efforts were initiated to diversify the division's activity by focusing on heavy oil and oilsands related drilling and coring opportunities. Our drilling services are provided across the WCSB, but primarily in Alberta.

Downhole Services

The downhole services division operates 18 coiled tubing units, twelve electric wireline units and three swabbing units (one swabbing rig was sold subsequent to year end). Coiled tubing units are used to deploy and retrieve downhole tools such as plugs, valves, drill bits and fishing tools or to circulate or place stimulation and/or clean out fluids or gases relating to the well completion or workover process. Swabbing units are also used to remove fluids from well bores and to deploy and retrieve downhole tools. The swabbing and coil tubing units are stationed out of Drumheller, Red Deer, Grande Prairie and Lloydminster, Alberta.

The majority of activity in our coil tubing and swabbing businesses occurs in east-central Alberta and western Saskatchewan.

The electric wireline or e-line units are used in the well completion process to deliver cased-hole logging tools and perforating guns or to install mechanical plugs in well bores. The division is also engaged in pipe recovery services that are used during downhole fishing operations and specializes in tubing conveyed perforating. The division also offers proprietary propellant services used in the perforation process. The e-line units are based out of Red Deer and Grande Prairie, Alberta and provide services in Alberta and northeastern British Columbia.

Production Services

The Production services division provides a range of services focused on the supply, storage, handling, treatment and disposal of various oilfield fluid products. The division provides mobile storage systems, site access matting and related transportation services to support the supply of its fluid products. Our fluid products provided by the division are used primarily in gas drilling and production operations for well completion, stimulation and workover. The division dispatches and retrieves these fluid products as required for re-use, storage or disposal using a modern fleet of vacuum trucks, hot oilers and tanks trucks. These services are provided from the division's operations center in Drumheller, Alberta for gas well development activities in east-central and southern Alberta.

Rentals

Oil and gas exploration and production companies do not maintain the large assortment of oilfield equipment necessary for drilling, completion and production operations. They generally rent much of the necessary equipment for such operations. BlackWatch's rental division maintains an inventory of rental equipment such as rig mats, swamp matting, flare tanks, storage tanks, premix tanks, shale bins, flock tanks, invert systems and other equipment. The rental division provides an array of transportation equipment to support the deployment of its rental equipment fleet to client locations. Rental operations are conducted from dedicated bases in Valleyview and Sundre, Alberta and also though other BlackWatch base locations as necessary. The division provides oilfield rental services to operators in west-central and north-western Alberta.

Transport

The transportation division operates a fleet of 26 heavy transport units providing a variety of oilfield hauling services,, including rig moving, heavy equipment transportation and specialized hauling. The fleet consists of: 4 mobile crane units for loading and unloading pipe, casing and heavy equipment; 6 bed trucks which are used for off-road heavy hauling such as positioning large rig pieces on well sites and 16 winch tractors primarily used for highway transportation of heavy equipment. The transport division conducts operations from bases in Vegreville and Drumheller Alberta and provides services primarily in eastern and northern Alberta.

Pipeline Construction

The pipeline construction division built 2" through 16" pipeline systems including installation of above-ground infrastructure such as compressors, separators, heaters and dehydrator packages. The pipeline division was not compatible with management's vision for the direction of the Trust and the assets of this division were sold on August 31, 2007.

SUMMARY FINANCIAL INFORMATION

($ thousands, except per Trust unit amounts)		2007		2006[2]
		Period ended December 31		Initial period ended December 31
Revenue from continuing operations	$	44,360	$	22,442
Gross margin from continuing operations[1]	$	779	$	3,907
Normalized EBITDAC [1]	$	(4,065)	$	1,740
Net loss from continuing operations	$	(43,969)	$	(163,072)
Per Trust unit - basic and diluted	$	(1.60)	$	(8.92)
Funds from operations	$	(7,429)	$	(402)
Total assets	$	81,894	$	128,325
Debt and future capital obligations:				
Current	$	43,726	$	877
Long-term	$	475	$	40,986
Unitholders' equity	$	33,650	$	69,511
Cash distributions declared per Trust unit	$	0.065	$	0.460

[1] See definition within the *Non-GAAP Measures* section.
[2] The Trust was created on June 23, 2006, but did not commence operations until August 4, 2006.

The Trust commenced operations on August 4, 2006 and as such the comparative information provided for the period ended December 31, 2006 includes only 150 operating days. In certain circumstances the Trust has amended the presentation of historical information to provide more meaningful comparative values for the period ended December 31, 2007. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

In 2007 the Western Canadian oil and gas industry continued to experience the reduced activity levels which began in the third quarter of 2006. This slowdown has largely been driven by a reduction in natural gas drilling activity. High natural gas storage levels combined with appreciation in the Canadian dollar, has reduced Canadian dollar denominated natural gas prices and led to cutbacks in oil and gas producers' exploration and development budgets. Furthermore during the fourth quarter of 2007 the Alberta government clarified its position on oil and gas royalties by adopting the majority of the recommendations of the "Our Fair Share" report produced by the Alberta Royalty Review Panel in September 2007. This report proposed to increase royalties on oil and gas production in Alberta. These proposed changes to the royalty structure in Alberta created uncertainty in the oil and gas industry and caused many oil and gas producers to reconsider their budgets, which delayed or curtailed much new activity. Energy service activity was also reduced by unseasonably wet weather in the second and third quarters of 2007. In the fourth quarter the ground in the northern part of the sedimentary basin took longer to freeze up which delayed the start of the normally busy winter drilling season and further reduced the ability of the Trust to move equipment. These factors resulted in lower demand for energy services, greater competition among energy service providers and lower prices. The downturn in the market for energy services has been particularly pronounced for BlackWatch because of the emphasis of a number of its divisions on natural gas related activities in Alberta. This has significantly reduced revenues and gross margins of the Trust.

As a result of these conditions, the Trust has incurred negative cash flows from operations and losses during 2007. In reaction, BlackWatch began taking actions to rationalize its operations during the second quarter of 2007 by reducing fixed and variable costs to better reflect these lower activity levels. The changes include closure of some field offices, staff reductions, reductions of guaranteed pay programs, elimination of overtime pay exceeding regulatory requirements and revisions to benefits programs. Strict approvals for repair and maintenance expenditures and an improved preventative maintenance program have contributed to reductions in equipment related operating costs.

Management also recognized weaknesses in the Trust's sales and marketing function. To improve the focus of the sales force and ensure that the sales and marketing function engaged the organization at a strategic level the position of Vice President, Sales and Marketing was created and filled by a sales professional with 30 years of experience. These actions were believed to be a key to repositioning certain divisions in the market.

The Trust also took actions to improve its debt and working capital position. The Trust halted distributions effective for the month of February, 2007, in order to reflect the reductions in cash flow from operations. On October 4, 2007 BlackWatch received a $22.5 million subordinated loan from an entity substantially owned by a director of BlackWatch, which was used to reduce the outstanding balance of our senior credit facility. Interest costs on the subordinated facility are to be paid quarterly through the issuance of trust units. In March 2008 BlackWatch reached an agreement with the subordinated lender to expand the facility to $27.5 million and extend its maturity to September 1, 2008. On July 3, 2007 the Trust completed a rights offering of 4,765,656 units of the Trust for gross proceeds of $8.0 million. Net proceeds of $7.9 million were used to repay outstanding debt under the senior credit facility.

The Trust closed the sale of non-core assets making up its pipeline construction division on August 31, 2007. Cash proceeds of disposition of $3.4 million were applied against outstanding bank debt.

RESULTS OF OPERATIONS

Revenues

($ thousands)	For the year ended December 31, 2007						
	Consolidated	Downhole Services	Drilling	Production Services	Transport	Rentals	Pipeline
Revenue	$ 48,934	$ 16,087	$ 10,866	$ 5,979	$ 6,012	$ 5,416	$ 4,574
Revenue from discontinued operations	$ 4,574	-	-	-	-	-	4,574
Revenue from Continuing operations	$ 44,360	$ 16,087	$ 10,866	$ 5,979	$ 6,012	$ 5,416	$ -

($ thousands)	For the initial period ended December 31, 2006						
	Consolidated	Downhole Services	Transport	Drilling	Production Services	Rentals	Pipeline
Revenue	$ 29,197	$ 7,582	$ 3,609	$ 6,019	$ 2,389	$ 2,843	$ 6,755
Revenue from discontinued operations	$ 6,755	-	-	-	-	-	6,755
Revenue from Continuing operations	$ 22,442	$ 7,582	$ 3,609	$ 6,019	$ 2,389	$ 2,843	$ -

Operating Expenses and Gross Margin

($ thousands)	Period ended December 31, 2007	2006
Operating Expenses		
Labour	$ 24,110	$ 10,418
Fuel	3,962	1,520
Repairs and maintenance	4,417	2,687
Sub-contractors	3,590	3,578
Other	12,763	6,703
Total	$ 48,842	$ 24,906
Expenses from discountinued operations	$ 5,261	$ 6,371
Expenses from continuing operations	$ 43,581	$ 18,535
Gross Margin from continuing operations	$ 779	$ 3,907

($ thousands)	For the year ended December 31, 2007					
	Downhole Services	Drilling	Production Services	Transport	Rentals	Pipeline
Operating Expenses						
Labour	$ 8,485	$ 6,024	$ 2,780	$ 2,195	$ 2,161	$ 2,468
Fuel	980	1,023	542	609	478	329
Repairs and maintenance	1,394	1,391	354	517	410	350
Sub-contractors	435	143	79	1,114	741	1,078
Other	6,521	1,925	1,270	1,143	867	1,036
Total Operating Expenses	$ 17,815	$ 10,506	$ 5,025	$ 5,578	$ 4,657	$ 5,261
Total operating expenses from discountinued operations	-	-	-	-	-	5,261
Total operating expenses from continuing operations	17,815	10,506	5,025	5,578	4,657	-
Gross Margin from continuing operations	$ (1,728)	$ 360	$ 954	$ 434	$ 759	$ -

($ thousands)	For the initial period ended December 31, 2006					
	Downhole Services	Drilling	Production Services	Transport	Rentals	Pipeline
Total Operating Expenses	$ 6,714	$ 5,420	$ 1,940	$ 2,657	$ 1,804	$ 6,371
Total operating expenses from discountinued operations	-	-	-	-	-	6,371
Total operating expenses from continuing operations	6,714	5,420	1,940	2,657	1,804	-
Gross Margin from continuing operations	$ 868	$ 599	$ 449	$ 952	$ 1,039	$ -

As discussed earlier under *Summary Financial Information*, there has been a general slowdown, year over year, in energy service activity in the Western Canadian Sedimentary Basin. As a result of the low oil industry activity levels revenues throughout the organization were below expectations for the year ended December 31, 2007.

The significant declines in drilling activity in Canada have continued throughout the year resulting in reduction in drilling rig utilization for the industry of approximately 33% from 2006 to 2007. As the majority of the trust's operating divisions are dependent upon drilling activity levels to support their utilization, it is believed

that drilling rig utilization is a good leading indicator for assessing the Trusts operational activity. Although BlackWatch initiated operations as an oilfield services trust in August 2006 and has no relevant financial information for the period prior to commencement of operations as a trust, management has estimated that the overall decline in BlackWatch's activity in 2007 versus 2006 on a full year basis is approximately 40%. The estimated decline in the trust's activity level in 2007 versus 2006 appears to be consistent with the industry wide declines seen in drilling rig utilization over the same period.

In response to the overall decline in industry activity and the resulting reduction in revenues, numerous initiatives were undertaken to enhance sales revenues including adding differentiating technologies and services to existing divisions and refocusing the business to markets with more promising levels of activity. These efforts have helped to improve operational results, but could not counter the overall decline in oilfield services activity.

Operating expenses consist of wages and benefits of operating personnel, sub-contractors, fuel, repairs and maintenance, materials and supplies and other direct costs of the operating divisions. The operating costs of the Trust include a significant component of fixed costs, which do not vary with sales revenue. The most significant fixed costs are salaries and benefits of our operating personnel. Each of the operating divisions have a core of experienced personnel who are not generally laid off during periods of low activity. Because of this, labour costs did not decline as much as revenues, averaging 49% of total revenues in 2007 and 36% in 2006. Other costs such as field office and shop rent, insurance and vehicle lease costs also have a significant fixed component. As a result, operating expenses from continuing operations as a percentage of revenue from continuing operations were 97% in the period ended December 31, 2007 compared to 83% for the 150 day period ended December 31, 2006, due to the significant reduction in revenues from 2006 to 2007.

Starting in the second quarter of 2007, direct labor costs were reduced in response to declines in field activity. Indirect labor costs tend to be associated with operational support and, although more fixed in nature, have also been significantly reduced. The number of staff in the operating divisions fell from an average of 317 in the quarter ended December 31, 2006 to 205 in the quarter ended December 31, 2007. Despite these cost reductions the fixed nature of labor support costs combined with declining revenue has resulted in an overall increase in labor costs as a percentage of revenue. Management undertook a comprehensive review of compensation costs and implemented several changes, including the reduction of guaranteed pay programs, field staff reductions at the end of the winter season, elimination of overtime policies that exceeded regulatory standards and an overall review of benefit programs to determine opportunities for cost savings. Overall, the revised compensation structure allows costs to more appropriately track activity levels.

Fuel costs increased from 5.2% of revenues in 2006 to 8.1% in 2007, reflecting an increase in fuel prices and reduced revenues. Subcontractor costs fell from 15.9% of revenues in 2006 to 7.3% in 2007. This change relates primarily to the pipeline construction division, which relied heavily on subcontracted services and represented a reduced proportion of revenues in 2007. Repairs and maintenance expenses comprised 9% of total operating expenses in the period compared to 11% in 2006 but remained consistent between periods at 9% of total revenue. The Trust has been focusing it maintenance efforts on high utilization assets. Chronically underutilized assets have been demobilized to minimize their contribution to the Trust's cost base. Furthermore, management has implemented strict cost controls and expenditure approvals for repairs and maintenance programs. These controls, combined with the more robust preventative maintenance program introduced in the first quarter of 2007, allowed the Trust to limit expenses in the period and reduce unexpected repairs.

Contract Drilling

The drilling division generated revenues of $10.9 million in 2007 versus $6.0 million for the initial period in 2006 and gross margin of $0.6 million (10% of revenues) in 2006 versus $0.4 million (3% of revenues) in 2007. Declining drilling activity resulted in average industry drilling rig utilization of 37% in 2007 compared to 55% in 2006. BlackWatch operated 10 rigs during 2007, achieving an average utilization rate of 17%. Shortfalls in the division's activity were largely a result of exposure to shallow gas and coal bed methane drilling activities, which had significant industry wide declines. This condition was exacerbated by an over-exposure to one major client of BlackWatch which significantly reduced its shallow development drilling program in early 2007. Historic low rig utilization across the sector left excess drilling equipment available to the market, which put downward pressure on pricing and contributed to reduced margins.

Production Services

Production services generated revenues of $6.0 million in 2007 versus $2.4 million in the initial period of 2006. Although the division is affected by levels of drilling activity, production services provides specialized products and services which have been less exposed to the lower activity levels. For example, the division increased its fluid mixing capacity in 2007 to meet increasing demand. The business unit generated gross margins in 2007 of $953,000 (16% of revenue) versus $449,000 (19% of revenue) in 2006. Aggressive reductions in field compensation programs initiated in the second quarter of 2007 helped to improve margins in the second half of 2007. In March 2008 BlackWatch purchased 148 flow-back tanks and related equipment which will complete its offering of fluid support services used for the completion, stimulation and production of oil and gas wells.

Transportation

The transport division generated revenues of $6.0 million in 2007 versus $3.6 million for the initial period in 2006. Declines in customer demand due to lower levels of drilling activity created downward pressure on pricing throughout 2007 resulting in gross margins of $415,000 (7% of revenues) in 2007 versus $952,000 (26% of revenue) in 2006. Although progress was made in reducing repair and maintenance and fuel costs in the latter part of 2007, these improvements were offset by the effect of the fixed component of labor costs over a reduced revenue base. In late 2007, the division initiated efforts to utilize otherwise inactive assets to haul equipment in the rentals and production services divisions where possible.

Rentals

In 2007 the rentals division generated revenues of $5.4 million versus $2.8 million in the initial period in 2006 and gross margins of $760,000 (14% of revenues) in 2007 versus $1.04 million (37% of revenue) in 2006. The significant reduction in margin is the result of lower industry activity in our rental service areas, leading to increased competition and lower prices. Lower levels of drilling activity and increased competition reduced equipment utilization and unit pricing in the division. The rentals division has deployed assets to the production services and drilling divisions to improve utilization.

Downhole Services

In 2007 the downhole services division generated revenues of $16.1 million versus $7.6 million during the initial period in 2006 and gross margins of negative $1.7 MM$ (-11% of revenue) in 2007 versus $0.9 million (11% of revenue) in 2006. The results from this division were affected by significant reductions in coiled tubing activity due to declines in shallow gas drilling. Coiled tubing experienced high fixed compensation costs associated with attracting and retaining qualified personnel. Unusually high repair and maintenance costs were incurred during 2007 mainly as a result of the age and condition of the fleet. The completions and swabbing business unit experienced reduced but stable activity levels through 2007, with the exception of the fourth quarter when the loss of a tender for a major client resulted in reduced activity. To help counter declining revenues, the completion business initiated pipe recovery service operations and began offering proprietary propellant technologies licensed though a third party.

Pipeline Construction

It was concluded by the middle of 2007 that pipeline construction was not part of management's vision for core services in BlackWatch. The division was sold in August 2007.

Selling, General and Administrative Expenses

($ thousands, except where otherwise indicated)	Period ended December 31,	
	2007	2006
Selling, General and Administrative	$ 4,432	$ 2,213
Percentage of revenue from continuing operations	10%	10%

All costs included in this caption are incurred at a corporate or head office level. Any support costs incurred directly by the operating divisions are classified as operating expenses.

Selling, general and administrative costs ("SG&A") in 2006 are for 150 operating days. The Trust reduced SG&A in 2007 compared to 2006 on an annualized basis through various cost rationalization initiatives, including head count reductions, revisions to the Trust's benefit programs, reduction in office space and the reduction of outsourced services. Corporate office staff complement was reduced from an average of over 30 people in the quarter ended March 31, 2007 to 20 people in December 2007. The effectiveness of the cost control procedures are further evidenced in the quarter over quarter comparisons which are outlined in the S*ummary of Quarterly Results* section.

Impairment of Goodwill

Goodwill recorded in 2006 represented the excess of the costs of the companies acquired over the fair value of their identifiable assets on the date of their acquisition. The carrying value of goodwill is tested for impairment at least annually. The impairment test performed on goodwill as at December 31, 2007 determined that there was no excess of fair value of identifiable assets over net book value and an impairment of the remainder of goodwill in the amount of $6.3 million was recorded. The impairment charge is the result of depressed natural gas pricing and lower levels of oil and gas exploration and development resulting in weak energy service industry activity levels.

Impairment of Property, Plant & Equipment

Property, plant and equipment is evaluated for impairment at least annually. Impairment is measured by the excess of an asset's carrying value over its fair value. The impairment in the cost of property, plant and equipment was calculated based on third party appraisal and management estimates of the estimated fair values for the major equipment of the Trust. The reduction in the fair values of equipment is the result of an oversupply of oilfield service equipment in western Canada and lower demand for energy services.

Interest Expense on Debt

($ thousands)	Period ended December 31,	
	2007	2006
Interest on debt	$ 4,082	$ 937
Other interest and bank charges	2,275	1,017
Total interest expense	$ 6,357	$ 1,954

The Trust has incurred interest of $3.6 million on its syndicated senior credit facility in 2007. Until October 4, 2007 interest on this facility had been calculated on a sliding scale based on the Trust's ratio of funded debt to EBITDA, and averaged at prime plus 1.46%. The interest rate of the credit facility increased to prime plus 2.625% on May 9, 2007.

On October 4, 2007 the Trust renegotiated its senior credit facility and obtained a $22.5 million subordinated loan. The proceeds from the subordinated loan were used to repay a portion of the outstanding bank debt. The interest rate on the subordinated loan was 9.5% for the first three months and 12% thereafter, as compared to an effective rate of 8.625% under the senior credit facility as at December 31, 2007. Interest on the subordinated loan is accrued monthly and paid quarterly. Interest is being settled with treasury units at the request of the subordinated debt holder, which reduces the cash debt service costs. BlackWatch is anticipating higher interest costs for the subordinated loan in 2008 because of the higher interest rate on the extended facility.

In the period ended December 31, 2007 interest has been incurred on the subordinated loan of $521,000. This interest was paid through the issuance of 792,271 Trust Units on Jan 4, 2008.

Other interest and bank charges consist primarily of financing charges that have been incurred by the Trust as part of obtaining the syndicated senior credit facility and the subordinated debt.

Depreciation and Amortization

($ thousands)	Period ended December 31,	
	2007	2006
Depreciation and amortization	$ 16,817	$ 6,366
Depreciation and amortization from discountinued operations	$ 284	$ 184
Depreciation and amortization from continuing operations	$ 16,533	$ 6,182

Of the total consolidated depreciation and amortization of $16.5 million in 2007, $9.8 million relates to depreciation of capital assets (2006 - $4.0 million) and $6.7 million relates to amortization of intangible assets (2006 - $2.2 million). Depreciation on capital assets other than drilling rigs is calculated based only on the passage of time and does not consider utilization. This, combined with fixed asset additions in 2007 explains why depreciation and amortization expense has increased as a percentage of revenue from 2006 to 2007. Intangible assets were fully amortized as at December 31, 2007.

INCOME TAXES

In June 2007, legislation concerning the taxation of certain publicly traded trusts was enacted. The new regime imposes a tax of 31.5% on distributed trust income derived from certain sources beginning in 2011. As a result, the Trust has calculated its future tax liability in the year ended December 31, 2007. The future tax liability related to the excess of the net book value over related tax pools indicates a future tax liability of approximately $6.7 million, which is offset by a future income tax asset of $9.1 million related to non-capital tax loss carryforwards and share issue costs available to offset future income. The net future tax asset is not recorded because of the uncertainty of future taxable income to realize the tax asset.

During the year, the Trust has incurred current income tax expense of $169,000. This relates to reassessments for the companies acquired in 2006.

INVESTING ACTIVITIES

Capital Expenditures

Capital costs consist of either growth or maintenance expenditures. Maintenance capital expenditures reflect the costs of replacing existing assets. Growth capital expenditures reflect investment costs to generate incremental productive capacity.

The $8.2 million of capital expenditures incurred during the year ended December 31, 2007 were growth expenditures, primarily consisting of:

- $2.7 million within the drilling division which relates to the construction of two drilling rigs and partial construction of one telescoping double pad rig (See also discussion of Rig #11 under *Liquidity and Capital Resources*.)
- $1.2 million within the production services division which relates to the construction of a hot oiler, one swabbing rig, a new brine plant and a tank farm.
- $1 million within the transport division which relates to crane trucks and other transport vehicles.
- $1.4 million for new equipment in the rental division.
- $0.5 million within the completion services division related to the completion of two new E-line rigs, pipe recovery equipment and computer hardware.
- $0.25 million within the corporate division which related primarily to the implementation of a new accounting system and furnishings for the head office.

The Trust's capital expenditures for the year ended 2007 were funded through draws on the senior credit facility.

RELATED PARTY TRANSACTIONS

During 2007, the Trust incurred expenses of $462,000 (2006, $211,000) relating to the rental of land, buildings and equipment owned by certain officers who are also unitholders of the Trust. In addition, the Trust has incurred expenses of $12,500 (2006, $25,000) in the normal course of business related to accounting services performed by principals and officers of the Trust. The Trust has incurred legal fees with a legal firm in which one of the Trusts directors is a partner in the amount of $496,000 (2006, $930,000). These fees relate to work completed for the rights offering, credit facility and general corporate matters. These transactions were carried out in the normal course of business and completed at exchange values which approximate fair values.

The Trust has also entered into a $22.5 million subordinated loan with an entity controlled by a Director to provide additional funding. Proceeds from the subordinated facility were used to pay down the outstanding balance under the senior credit facility.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2007 the Trust had drawn approximately $21 million of its available $35 million syndicated senior credit facility and had fully drawn the $22.5 million available under the subordinated credit facility. Additional debt of approximately $850,000 is outstanding related to lease financing on capital equipment, which are subject to fixed interest rates. See further details below within the *Contractual Obligations and Commitments* section. As at March 27, 2008 the Trust had drawn approximately $23.5 million of the senior credit facility. The amount drawn on the senior facility will be paid down as working capital built up in the more seasonally active first quarter is realized.

Subsequent to December 31, 2007, the Trust agreed to an extension of the subordinated facility to September 1, 2008. As part of the extension of the subordinated loan, the total available under the facility was increased to $27.5 million, with the additional amount available, at the lender's discretion, for capital acquisitions.

A financial covenant under the senior credit agreement requires that, commencing December 31, 2007, the Trust shall ensure that Cumulative Adjusted EBITDA, less interest tax and lease payments, from October 1, 2007 shall be greater than zero. The senior lenders have agreed to waive this covenant for the fourth quarter of 2007. As a condition of that waiver, the $35 million maximum available under the facility has been reduced to $29 million effective immediately and will be reduced to $25 million on June 1, 2008.

Funds from operations

($ thousands)	2007			
		2007		2006
Loss from continuing operations	$	(43,969)	$	(163,072)
Add: Depreciation and amortization		16,533		6,182
Add: Impairment		16,752		156,229
Add: Unit based compensation expense		90		-
Add: Issuance of warrants		134		
Add: Loss on sale of equipment		442		231
Add: Non cash interest		521		-
Add: Amortization of financing charges		2,068		28
Funds from operations	$	(7,429)	$	(402)

Earnings Before Interest, Depreciation and Amortization, Tax and Unit Compensation

($ thousands)	Period ended December 31,			
		2007		2006
Net Loss from continuing operations	$	(43,969)	$	(163,072)
Add: Depreciation and amortization		16,533		6,182
Add: Interest		6,357		1,954
Add: Unit compensation		93		447
Add: Income Tax		169		-
Add: Impairment of goodwill, intangibles and PP&E		16,752		156,229
EBITDAC from continuing operations	$	(4,065)	$	1,740

The Trust incurred negative Funds from Operations and EBITDAC in 2007, requiring it to draw on its senior credit facility to provide working capital. Energy service activity and demand remains uncertain in 2008, which may require BlackWatch to take further steps over the coming months to maintain financial viability over the long term. BlackWatch will need to extend or refinance it senior and subordinated debt in 2008. The Trust will continue to evaluate its cost structure to attempt to match it to lower activity levels, limit its capital additions to those providing immediate cash flow, rationalize underutilized assets and consider ceasing loss producing operations.

As at December 31, 2007, the Trust has incurred approximately $5.6 million relating to the construction of a telescopic double drilling rig ("Rig #11"). BlackWatch intends to complete Rig #11 in 2008, funded using the fee received as part of the take-or-pay contract, with the balance drawn from its senior credit facility.

It is expected that funds from operations and the available capacity under the subordinated facility will be the primary sources of funding for future capital expenditures. The Trust made significant investments in new equipment in 2006 and early 2007 so its fleet of equipment is relatively new. With the reduced demand for energy services in 2007 BlackWatch is only making limited capital expenditures, focused on accessing higher margin business and improving utilization of existing assets.

For further details on the Trust's liquidity see *Distributions, Contractual Obligations and Commitments, Financial Risks and Uncertainties* and the *2007 Outlook* sections below.

UNITHOLDERS' CAPITAL

As of March 25, 2008 the Trust had issued 27,703,537 Class A Trust Units, 4,471,267 Class B Exchangeable Units, 3,000,000 warrants for the purchase of Class A Trust Units and 2,556,750 options to purchase Class A Trust Units.

On January 4, 2008 the Trust issued 792,271 units in exchange for interest accrued on the $22.5 million subordinated loan. The units were issued as consideration on $521,000 of interest that was accrued during the period of October 4, 2007 to December 31, 2007.

DISTRIBUTIONS

A total of $1.6 million in distributions were declared and $3.9 million was paid to Unitholders in the year ended December 31, 2007. As detailed in the February 19, 2007 press release, the Trust halted distributions effective for the month of February 2007 until further notice. The Trust did declare a $0.065 per Unit distribution for the month of January 2007 and this amount was paid to Unitholders on February 15, 2007.

Standardized distributable cash:

($ thousands)		Period ended December 31,		
		2007		2006
Cash flow from operating activities	$	(7,429)	$	(402)
Add (deduct):				
Property, plant and equipment expenditures, net of proceeds from disposals		(4,294)		(19,076)
Standardized distributable cash	$	(11,723)	$	(19,478)

The Trust's calculation of standardized distributable cash conforms, in all material respects, with the recommendations of the Canadian Institute of Chartered Accountants publication *Standardized Distributable Cash in Income Trusts and other Flow-Through Entities: Guidance on Preparation and Disclosure.*

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Trust has various vehicle and equipment obligations under capital leases with interest rates ranging from non-interest bearing to 14.2%. The leases have expiry dates ranging from January 2008 through June 2011.

The following table summarizes the amount of contractual obligations for each of the next five years:

	Payments due by period					
Contractual obligations	**Total**	**2008**	**2009**	**2010**	**2011**	**2012**
Debt	43,363	43,363	-	-	-	-
Capital lease obligations	838	363	291	135	49	-
Operating leases	5,691	1,899	1,514	1,213	759	306
Purchase obligations	-	-	-	-	-	-
Other long term obligations	-	-	-	-	-	-
Total contruactual obligations	49,892	45,625	1,805	1,348	808	306

SUMMARY OF QUARTERLY RESULTS

($ thousands, except per Trust unit amounts)				2007	2006	
	Q4	Q3	Q2	Q1	Q4	Q3
Revenue from continuing operations[1 & 2]	$ 8,300	$ 9,795	$ 4,609	$ 21,656	$ 13,438	$ 8,984
Gross margin from continuing operations	$ 482	$ 767	$ (4,341)	$ 3,870	$ 1,222	$ 2,685
Selling, general and administrative expenses	$ 974	$ 726	$ 1,225	$ 1,507	$ 1,598	$ 615
Net loss from continuing operations [1, 2]	$ (19,362)	$ (3,827)	$ (16,862)	$ (3,918)	$ (161,639)	$ (1,233)
Per Trust unit - basic	$ (0.62)	$ (0.14)	$ (0.68)	$ (0.16)	$ (6.54)	$ (0.10)
Per Trust unit - diluted	$ (0.62)	$ (0.14)	$ (0.68)	$ (0.16)	$ (6.54)	$ (0.10)
Funds from continuing operations [1, 2]	$ (937)	$ (1,057)	$ (6,679)	$ 1,244	$ (1,132)	$ 1,114
Per Trust unit - basic	$ (0.03)	$ (0.04)	$ (0.27)	$ 0.05	$ (0.05)	$ 0.09
Per Trust unit - diluted	$ (0.03)	$ (0.04)	$ (0.27)	$ 0.05	$ (0.05)	$ 0.09
Weighted average Trust units - basic	31,320	27,482	24,781	24,781	24,724	12,188
Weighted average Trust units - diluted	31,333	27,482	24,805	24,808	24,754	12,323
Trust units, end of period	32,174	29,499	24,781	24,781	24,781	24,206

[1] Revenue in Q1, Q2 and Q3 of 2007 includes $2.6, $.9 and $1 million relating to the pipeline construction division that has been sold as of August 31, 2007.
[1] Revenue in Q3 and Q4 of 2006 includes $2.2, and $4.6 million relating to the pipeline construction division that has been sold as of August 31, 2007.
[2] Operating costs in Q1, Q2 and Q3 of 2007 includes $3.0, $1.2 and $1 million relating to the pipeline construction division that has been sold as of August 31, 2007
[2] Operating costs in Q3 and Q4 of 2006 includes $1.8, and $4.6 million relating to the pipeline construction division that has been sold as of August 31, 2007

Variances between the quarters in 2007 are primarily due to seasonality. Traditionally, second quarter results are the weakest for oil and gas services companies (see "Seasonality" below) and in 2007 the sector experienced a longer than normal spring breakup followed by significant amounts of precipitation in June. In 2006 the third quarter only reflects 55 days of operations.

Fourth Quarter

Fourth quarter results were significantly below the fourth quarter of 2006 and consistent with the third quarter of 2007. The fourth quarter generally has higher industry activity because of seasonality, but was negatively affected by the report produced by the Alberta Royalty Review Panel in September 2007. The proposed royalty increases in Alberta created uncertainty which delayed or curtailed much industry activity as oil and gas producers weighed its impact.

Fourth quarter drilling rig utilization rates within the industry averaged only 37%, down significantly from 56% during the same period in 2006. The utilization rate within the BlackWatch drilling fleet was 12% in the fourth quarter of 2007 compared to less than 10% in the third quarter. BlackWatch's drilling utilization rates were below industry averages because BlackWatch's drilling business emphasizes shallow gas and CBM drilling and development activities, which have experienced the greatest reductions within the industry.

In the fourth quarter of 2007, BlackWatch performed an impairment test of its goodwill and property, plant and equipment, resulting in a non-cash impairment charge of $6.3 million for goodwill and $10.4 million for property, plant and equipment. Selling general and administrative expenses in the fourth quarter of 2007 were substantially reduced from the fourth quarter of 2006 because of the cost reduction initiatives discussed under *Summary Financial Information.* Selling general and administrative expenses in the fourth quarter were greater than the third quarter of 2007 because of year-end and personnel recruiting costs.

SEASONALITY

The geographical region within which the Trust operates is subject to significant changes in activity levels as a result of seasonal weather patterns. Historically oilfield service activities are higher in the first and fourth quarters of the year, resulting in higher revenues in those periods. Spring weather, due to melting snow and rain, impacts the accessibility of work sites because of road bans implemented to avoid damage to secondary roads. These conditions are normally seen during the months of April and May, however, the timing and duration may vary. In addition, the temperature conditions experienced within the winter season can impact the levels of service demand. Abnormally cold or warm temperatures can affect the ability to perform work and, therefore, decrease activity and utilization rates.

OFF-BALANCE SHEET ARRANGEMENTS

The Trust has not entered into any off-balance sheet arrangements as at December 31, 2007.

FINANCIAL INSTRUMENTS

Financial instruments of the Trust consist of cash, accounts receivable, advance receivable, marketable securities, accounts payable and accrued liabilities, income taxes payable, distributions payable, obligations under capital lease and finance contracts and debt. There are no significant differences between the net carrying value of these financial instruments and their fair value. The Trust is exposed to credit risks on its accounts receivable because it grants credit to customers in the normal course of business. That credit risk is concentrated because most accounts receivable are from entities in the oil and gas industry but, this risk is mitigated to the extent possible by regular reviews of outstanding accounts receivable, monitoring of the financial status of customers and termination of credit to customers with poor payment history.

The Trust is exposed to fluctuations in interest rates on its senior credit facility, which bears interest at floating rates.

FINANCIAL RISKS AND UNCERTAINTIES

Access to Financing

It is uncertain if, or on what terms, the lenders in the syndicate for the senior credit facility will provide a renewal for the facility when it matures on June 30, 2008. The senior credit facility is subject to financial as well as non-financial covenants. If the trust is not in compliance with these covenants, the senior lenders may accelerate the maturity of the facility prior to June 30, 2008. It is uncertain whether, or on what terms, the subordinated facility will be renewed at maturity on September 1, 2008.

Customer Dependence

The top five customers of the Trust accounted for approximately 46% of the reported revenues and its largest customer accounted for 30% of reported revenues. The Trust does not generally enter into long-term contracts with its customers and there can be no assurance of continued relationships. The loss of one or more major customers, or any significant decrease to services provided to a customer, prices paid or any other changes to the terms of services with customers, could have a material adverse effect on the Trust's business, financial condition, results of operations and cash flows and, therefore, on distributable income to be distributed to Unitholders.

Management regularly reviews the status of all outstanding aged accounts receivable. When it is determined that there is evidence of non-collectability, Management ensures that adequate provisions have been provided and that appropriate collection activity is undertaken.

As discussed elsewhere in this MD&A, the Trust is completing construction of a telescopic double drilling rig in connection with a two year take or pay agreement with a single customer. There can be no assurance that this customer will remain solvent to meet its obligations under the contract or that other work may be found to utilize this rig if this customer cannot meet those obligations.

Commodity Price Risk

Lower commodity prices have a direct impact on the Trust's customers' ability to generate cash flows, which in turn directly impacts the demand for services. These factors are beyond the Trust's control and, therefore, represent significant business uncertainty.

Legislation

Both federal and provincial legislation in respect of Trust taxation, environmental regulation and health and safety matters have a direct impact on the Trust's processes by which it conducts its operations and its ability to generate distributable cash flow. Legislation also impacts the operations of our customers, which may indirectly impact demand for our services.

Costs and Access to Labour and Materials

The Trust must access skilled labour and specialized materials to provide its services to its customers and, depending on their availability, these costs may increase disproportionately to a rate for which the Trust cannot compensate by increasing its charges or rates to customers, which would have a negative effect on revenue and cash flow.

Foreign Currency

The Trust does not currently engage in any significant purchases or sales transactions impacted by a non-domestic currency.

Interest Rate Risk

The Trust's net income and funds from operations are impacted by interest rate changes based on the amount of floating rate debt outstanding. At December 31, 2007, there was approximately $21 million outstanding on a credit facility which incurs interest at prime rate, plus 2.625%.

DISCLOSURE CONTROLS

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Trust's disclosure controls and procedures to provide reasonable assurance that material information related to the Trust is made known. In addition, internal controls over financial reporting have been designed by or have been caused to be designed under the supervision of the CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP.

The CEO and CFO have evaluated the effectiveness of the Trust's disclosure controls and procedures and assessed the design of the Trust's internal control over financial reporting as of December 31, 2007, pursuant to the requirements of Multilateral Instrument 52-109.

With respect to disclosure controls and procedures and internal controls over financial reporting, Management has concluded that, as of December 31, 2007, a weakness existed in the design and operating effectiveness of disclosure controls and the design of internal controls over financial reporting caused by failure of the Trust to formally communicate its policies and procedures documentation to all of its employees, including the Trust's expectations regarding whistle blowing practices, as well as various human resources policies including formal compensation and performance review procedures and certain other personnel policy items.

This identified weakness is mitigated by several factors including strong entity level controls comprised of significant officer and senior management review of financial reporting items, industry and corporate governance knowledge, and annual forecasting processes. It should be noted that these mitigating factors will not necessarily prevent the likelihood that a material misstatement will occur as a result of the aforementioned weakness.

Management and the Board are in the process of ensuring dissemination of all key policies, the requirement for annual acknowledgement of existence and understanding of said documents, as well as ongoing communication with senior Management to ensure any pertinent changes are made available to all personnel. All formal policies are expected to be developed and communicated by June 30, 2008.

FOREIGN OWNERSHIP

Based on information from the statutory declarations by unitholders, we estimate that, as of March 27, 2008, approximately 8% of our unitholders are non-Canadian residents with the remaining 92% being Canadian residents. The statutory declarations are only as of a specific record date, and therefore may still not reflect the current ownership level of the Trust's units; however, given the limitations in the securities registration system and the lack of any process for real-time residency information to flow to the trustee and transfer agent, the Trust is of the view that statutory declarations are currently the most appropriate method of determining the residency status of its Unitholders.

The Trust Indenture provides that not more than 49% of its Units can be held by non-Canadian residents. The Trust intends to require its Unitholders to complete statutory declarations as to their residency status each quarter to enable the Trust to monitor its level of non-Canadian resident ownership. The Trust Indenture requires all Unitholders to provide such statutory declarations when requested to do so by the trustee and transfer agent.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Trust prospectively adopted the Canadian Institute of Chartered Accountant's ("CICA") Handbook Section 3855, "Financial Instruments - Recognition and Measurement"; Section 3865, "Hedges", Section 1530, "Comprehensive Income", Section 3251, "Equity" and Section 3861, "Financial Instruments - Disclosure and Presentation". The overall impact on the Trust's financial statements was insignificant and was comprised of a $458,000 adjustment to the current debt amount related to a change in classification of previously deferred financing fees.

Further details on the transitional impact of accounting changes and a discussion of recent accounting pronouncements are presented in Note 2 to the *Consolidated Financial Statements*.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires that certain estimates and judgments be made with regard to the reported amount of revenues and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management judgment. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired, or the Trust's operating environment changes.

OUTLOOK

The outlook for the western Canadian energy services sector for 2008 and beyond is largely dependant on North American supply and demand for natural gas. Although the first quarter of 2008 has seen some improvements in natural gas prices, the outlook is still uncertain. We are seeing some improvements in rig utilization in the first quarter of 2008, but the supply of oilfield equipment and services are at historic highs and currently exceed demand. As such, we are still seeing downward pressure on prices for our services and, as a result, on our gross margins.

BlackWatch is countering these negative market forces with initiatives designed to help it compete for work and diversify to a broader range of industry activity. There are a number of initiatives underway or planned that should provide service differentiation, thereby improving the Trust's ability to compete in the current challenging market conditions. For example, in 2007 BlackWatch entered into several contracts for oilsands related drilling and coring work which was performed in the first quarter of 2008. This initiative is allowing us to participate in the growing market for oilsands development. Subsequent to December 31, 2007, BlackWatch entered into an agreement with an intermediate oil and gas producer for the use of a telescopic double drilling rig that is currently under construction. The agreement provides for a commitment of 200 days per year for two years and a separate cash payment to BlackWatch. The rig is anticipated to be completed in the third quarter. In March 2008 BlackWatch acquired 148 flow-back tanks and related equipment which, when combined with

its existing production services, completes its offering of fluid support services used for the completion, stimulation and production of oil and gas wells.

In late 2007 BlackWatch tested the capability to drill wells with casing which, in certain applications, eliminates the need for drill pipe and reduces tripping and pipe handling. Casing drilling can increase drilling efficiency significantly and has the potential to reduce formation damage associated with fluid exposure and pressure surges. BlackWatch's rigs are also well-suited to safely drill with air, as an alternative to conventional drilling using fluids. The design of our rigs allows this to be done without the addition of major equipment or service interfaces, resulting in very cost effective service versus typical air drilling operations. Drilling with air substantially increases drilling efficiency and imparts minimal formation damage, a critical issue in coal bed methane and shallow gas developments. We have recently tested the combination of drilling with casing, using air rather than fluids, resulting in significantly higher penetration rates. This combines the drilling efficiencies and other benefits of each technique, and creates a unique way to differentiate our drilling services. We have begun to utilize those techniques as a means of marketing our services to new, larger customers.

In 2008 BlackWatch should continue to benefit from two new completions services that were added in late 2007: 1) proprietary propellant technology to enhance perforation performance for little incremental cost, using licensed technologies; 2) pipe recovery equipment and expertise for both open-hole and cased-hole applications. By mid 2008 we expect to add a down-hole camera technology that can investigate well equipment problems and assist in directly evaluating production performance.

We believe that progressive actions such as these will help to improve the Trust's performance and make BlackWatch an employer of choice in the industry. BlackWatch continues to take advantage of its diversity in the market to leverage its infrastructure and manpower wherever possible to improve business performance. Improvement in management information systems and processes will also help to improve business results in the longer term.

BlackWatch recognizes that significant challenges remain, and we are taking a systematic approach to addressing them. We continue to take steps to stabilize the business from a financial point of view and are addressing the opportunities available to us in the current environment to help position BlackWatch for success. We are not basing our business plans on a near-term turnaround in western Canadian oil field activity. Our goal is to create an entity that is viable during periods of low economic activity but which is able to take full advantage of a future recovery. Management believe that the long term viability of the western Canadian sedimentary basin is supported by both declining oil and gas well production rates and overall increases in the global demand for energy.

FORWARD-LOOKING STATEMENTS

The MD&A contains certain forward-looking information and statements relating to the Trust's plans, strategies, objectives, expectations and intentions. Expressions such as "anticipate", "expect", "project", "believe", "estimate", "intend" and "forecast" and similar expressions and statements relate to matters that are not historical facts and should be used to identify these forward-looking statements. These statements may include, but are not limited to, future oil and gas service activity, future capital expenditures, future financial resources and specific events and trends in the oil and gas industry. The Trust believes that the expressions reflected in those forward-looking statements are reasonable, but such statements are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in our forward-looking statements. These statements speak only as of the date of the MD&A and the Trust does not assume any obligation to update these forward-looking statements, except as required by law.

NON-GAAP MEASURES

Throughout this MD&A, certain terms that are not specifically defined in Canadian generally accepted accounting principles ("GAAP") are used to analyze operations. In addition to the primary measures of net earnings and net earnings per unit, as recognized under GAAP, Management believes that certain measures not recognized under GAAP assist management and the reader in assessing the Trust's performance and understanding the Trust's results. Each of these measures provides the reader with additional insight into the Trust's performance.

- Gross margin – This measure is considered a primary indicator of operating performance and is calculated as revenue less operating expenses.
- EBITDAC (Earnings before interest, income taxes, depreciation and amortization and unit based compensation) – This measure is considered an indicator of the Trust's ability to generate funds in order to meet ongoing operating commitments, servicing of debt, funding for capital programs and distributions.
- Funds from operations – This measure is an indicator of the Trust's ability to generate funds in order to fund ongoing operating commitments, service debt, fund capital programs, pay interest and income tax charges and make distributions. Funds from operations are defined as cash flow from operations before changes in non-cash working capital.
- Working capital – This term is defined as current assets less current liabilities excluding the current portion of long-term debt and lease and finance contract obligations.
- Standardized distributable cash – This term is defined as cash flows from operations, including the effects of changes in non-cash working capital and any operating cash flows provided or used in discontinued operations, less adjustments for: (a) total capital expenditures and (b) restrictions on distributions from compliance with financial covenants at the date of the calculation and limitations arising from the existence of a minority interest in a subsidiary.

The above noted measures are not recognized under GAAP. As a result, the method of calculation may not be comparable with other companies or trusts. These measures should not be considered alternatives to net earnings and net earnings per unit as calculated in accordance with GAAP.

BlackWatch Energy Services Trust
Travis Robertson
President and Chief Executive Officer

Wiley Auch
VP Finance and CFO

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Units Listed – Symbol: BWT.UN
Toronto Stock Exchange

web site: www.blackwatchenergy.ca

Deloitte

Auditors' Report

To the Unitholders of
BlackWatch Energy Services Trust:

We have audited the balance sheets of **BlackWatch Energy Services Trust** as at December 31, 2007 and 2006 and the statements of operations, comprehensive loss, deficit and cash flows for the year ended December 31, 2007 and the initial period ended December 31, 2006. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of **BlackWatch Energy Services Trust** as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and the initial period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

Calgary, Alberta
March 7, 2008
(Except for notes 8 and 22 which are dated March 31, 2008)

BlackWatch Energy Services Trust
Consolidated Balance Sheets

(Stated in thousands of Canadian dollars)	As at December 31, 2007	2006
ASSETS		
Current Assets		
Cash	$ -	$ 3,958
Accounts receivable	6,345	18,602
Marketable securities (Note 3)	48	-
Prepaid expenses and deposits	821	513
Inventory (Note 4)	-	2,418
	7,214	25,491
Inventory (Note 4)	2,108	-
Advance receivable (Note 5)	-	1,310
Deferred finance charges (Note 2)	-	336
Property, plant and equipment (Note 6)	72,572	88,155
Intangible assets (Note 7)	-	6,744
Goodwill (Note 7)	-	6,289
	$ 81,894	$ 128,325
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 3,978	$ 11,587
Income taxes payable (Note 14)	65	3,094
Distributions payable	-	2,270
Current portion of debt (Note 8)	43,363	95
Current portion of obligations under capital leases and finance contracts (Note 9)	363	782
	47,769	17,828
Long-term debt (Note 8)	-	40,121
Obligations under capital leases and finance contracts (Note 9)	475	865
	48,244	58,814
Basis of presentation (Note 1)		
Commitments (Note 16)		
Subsequent events (Note 22)		
UNITHOLDERS' EQUITY		
Trust units (Note 11)	252,573	243,439
Contributed surplus (Note 11)	889	190
Deficit	(219,812)	(174,118)
	33,650	69,511
	$ 81,894	$ 128,325

See accompanying notes to consolidated financial statements

Approved by the board of directors:

Signed "Howard J. Crone"
Howard J. Crone
Director

Signed "David J. Rain"
David J. Rain
Director

BlackWatch Energy Services Trust
Consolidated Statements of Operations and Comprehensive Loss and Deficit

(Stated in thousands of Canadian dollars, except per unit amounts)		Twelve months ended December 31, 2007		Initial period ended December 31, 2006 (1)
Revenue				
Service	$	40,533	$	20,730
Product		1,478		783
Rental		2,349		929
		44,360		22,442
Expenses				
Operating		43,581		18,535
Selling, general and administration		4,432		2,213
Depreciation and amortization		16,533		6,182
Impairment of plant, property and equipment (Note 6)		10,463		-
Impairment of goodwill (Note 7)		6,289		148,385
Impairment of intangibles (Note 7)		-		7,844
Unit based compensation (Note 10)		93		447
Other interest and financing charges		2,275		1,017
Interest on debt		4,082		937
		87,748		185,560
Loss before other items		(43,388)		(163,118)
Other income		30		277
Loss on disposal of assets		(442)		(231)
Loss from operations before income taxes		(43,800)		(163,072)
Income taxes (Note 14)				
Current		169		-
		169		-
Net loss from continuing operations		(43,969)		(163,072)
Net income (loss) and gain from discontinued operations (Note 20)		(114)		200
Loss and comprehensive loss for the period		(44,083)		(162,872)
Deficit, beginning of period		(174,118)		-
Distributions for the period (Note 12)		(1,611)		(11,246)
Deficit, end of period		(219,812)		(174,118)
Loss from continuing operations per unit - basic and diluted (Note 11)	$	(1.60)	$	(8.92)
Loss from discontinued operations per unit - basic and diluted (Note 11)	$	-	$	-
Loss and comprehensive loss for the period per unit - basic and diluted (Note 11)	$	(1.60)	$	(8.92)

See accompanying notes to consolidated financial statements
(1) See note 18.

BlackWatch Energy Services Trust
Consolidated Statements of Cash Flow

(Stated in thousands of Canadian dollars)	Twelve months ended December 31, 2007	Initial period ended December 31, 2006[1]
Operating Activities		
Net loss from continuing operations	$ (43,969)	$ (163,072)
Items not requiring an outlay of cash:		
Depreciation and amortization	16,533	6,182
Impairment of property, plant and equipment	10,463	-
Impairment of goodwill	6,289	148,385
Impairment of intangibles	-	7,844
Unit based compensation expense	90	-
Issuance of warrants	134	-
Loss on disposal of property, plant and equipment	442	231
Non cash interest expense (Note 17)	521	-
Amortization of financing charges	2,068	28
	(7,429)	(402)
Change in non-cash working capital (Note 19)	2,820	1,271
Cash flows from continuing operations	(4,609)	869
Net income (loss) and gain from discontinued operations	(114)	200
Items not requiring an outlay of cash:		
Depreciation and amortization	284	184
Gain on disposal of assets	(1,101)	-
Cash flow from discontinued operations	(931)	384
Financing Activities		
Issue of Trust units, net of issue costs	7,838	28,259
Repayment of capital leases	(620)	(861)
Repayment of long-term debt acquired	-	(25,341)
Increase in debt	3,325	39,983
Decrease in shareholder loans	-	(4,752)
Cash and cash equivalents, reclassified against current portion of debt (Note 8)	275	-
Distributions to unitholders	(3,881)	(8,976)
Financing charges	(935)	(364)
Change in non-cash working capital (Note 19)	120	-
Cash flows from continuing financing activities	6,122	27,948
Repayment of capital lease	(189)	-
Cash flows from discontinued financing activities	(189)	-
Investing Activities		
Business acquisitions (Note 21)	-	(4,857)
Investment in long-term advance receivable	-	(1,310)
Purchase of property, plant and equipment	(8,249)	(19,504)
Proceeds on disposal of property, plant and equipment	449	428
Change in non-cash working capital (Note 19)	328	-
Cash flows from continuing investing activities	(7,472)	(25,243)
Purchase of capital property, plant and equipment	(93)	-
Proceeds on disposal of property, plant and equipment	3,599	-
Change in non-cash working capital (Note 19)	(385)	-
Cash flows from discontinued investing activities	3,121	-
Increase (decrease) in cash	(3,958)	3,958
Cash beginning of period	3,958	-
Cash end of period	$ -	$ 3,958
Supplementary cash flow information		
Cash interest paid	$ 4,252	$ 983
Cash taxes paid	$ 3,198	$ -

See accompanying notes to consolidated financial statements
(1) See note 18

1. Nature of operations and basis of presentation

BlackWatch Energy Services Trust (the "Trust" or "BlackWatch") is an open-ended unincorporated investment trust governed by the laws of the province of Alberta and created pursuant to a Trust Indenture dated June 23, 2006. The Trust commenced operations on August 4, 2006. The Trust and its subsidiaries provide a range of oilfield services to its customers operating in the western Canadian sedimentary basin. These services include drilling, electric wireline services, rig transportation and hauling, coil tubing well servicing, production services and oilfield equipment rentals and leasing.

Going concern
The Trust's financial statements as at and for the year ended December 31, 2007 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of operations. In the year ended December 31, 2007, the Trust had a loss from continuing operations of $44 million and negative cash flow from continuing operations of $7.4 million. At December 31, 2007, the Trust had borrowed approximately $43.4 million under its existing credit facility and its subordinated loan facility.

The ability of the Trust to re-finance or extend the maturity date of its senior debt and its subordinated loan and to generate positive cash flows are necessary for the Trust to continue operations. The Trust has agreed with its senior lender that the size of the credit facility will be reduced to $29 million and to $25 million on June 1, 2008. The subordinated lender has agreed to extend the maturity date to September 1, 2008 and increase the facility to $27.5 million. The continued support of its creditors, or an ability to re-finance the existing bank debt and subordinated debt, is necessary for the Trust to continue its operations. The financial statements do not include any adjustments required if the going concern assumption were not appropriate.

The financial statements of the Trust have been prepared by the Trust in accordance with Canadian generally accepted accounting principles (GAAP). Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements involves the use of estimates and approximations based on information available as of the date of the disclosure of assets and liabilities and revenues and expenses for the period reported. The financial statements have, in the Trust's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Trust's accounting policies summarized below.

2. Significant accounting policies

a) Use of estimates

The most significant estimates used in the preparation of the financial statements relate to the impairment of goodwill, intangibles and long lived assets and the going concern assumption. These estimates rely on significant judgments made by management and are subject to measurement uncertainty. Accordingly, actual results could differ from these and other estimates the effect of which would be recorded in future periods and could be material.

b) Principles of consolidation

These consolidated financial statements include the accounts of the Trust and all of its subsidiaries. All inter-entity transactions and balances have been eliminated upon consolidation.

c) Marketable securities

Marketable securities are comprised of securities that have been acquired by the Trust from certain customers as settlement of accounts receivable. Marketable securities have been classified as held for trading as it is the Trust's intention to dispose of all shares. All marketable securities are measured at fair value with changes in those fair values being recognized in net earnings.

d) Inventory

Inventory values are initially recorded at cost and are subsequently valued at the lower of cost and net realizable value. Cost is determined using the weighted average method.

e) Property, plant and equipment

Property, plant and equipment are recorded at cost. The table below details the depreciation rates that are applied against the various asset classes recorded by the Trust.

Asset Class	Rate
Drilling rigs	Unit of production based on 3,300 drill days
Coil tubing stands	20% declining balance
Field service equipment	15% declining balance
Shop tools and equipment	20% declining balance
Computer equipment	40% declining balance
Vehicles	30% declining balance
Furniture and fixtures	20% declining balance
Buildings	4% declining balance
Rental and leasing equipment	15% declining balance
Leaseholds	Straight line over the term of the lease

Assets recorded in property, plant and equipment as part of capital lease transactions are included in the appropriate property, plant and equipment assets class and depreciated based on the specified rate for that asset class.

The Trust performs impairment testing on its property, plant and equipment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value.

f) Goodwill and intangibles

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of net tangible and identifiable intangible assets acquired and is not subject to amortization. Goodwill is tested for impairment at least annually to determine if events or circumstances indicate the asset might be impaired. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying value of goodwill exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

Intangible assets with a limited life consist of employment contracts and customer lists, which were previously amortized using the straight line method over their expected useful life of three years. In 2007, the Trust reassessed the useful life of these intangible assets using new information available. This reassessment led the Trust to revise the amortization period of intangible assets from three years to one year. As a result, the entire amount of intangible assets was fully amortized at December 31, 2007.

Intangibles with a limited life are tested for impairment at least annually and whenever events and circumstances are deemed to have caused a permanent decrease in value.

g) Revenue recognition

The Trust recognizes revenue from all fixed price construction contracts using the percentage of completion method which is measured by the percentage of cost incurred to date compared to estimated total cost for each contract.

The Trust recognizes revenue from oilfield hauling upon delivery of hauled product to the contracted destination for contracted services.

The Trust recognizes revenue on the sale of products when title and ownership are transferred upon delivery.

The Trust recognizes revenue for all other services when services are performed.

h) Income taxes

The Trust follows the liability method to account for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the carrying value and the tax bases of assets and liabilities together with any loss carry forwards available for tax purposes, and are measured using the substantively enacted tax rates expected to be in effect when the differences are expected to reverse or the losses realized. Changes to these balances are recognized in net earnings in the period in which they occur. The amount of any future income tax assets recognized is limited to the amount that is more likely than not to be realized.

The Trust is a mutual fund trust for the purposes of the Canadian Income Tax Act. A mutual fund trust is subject to tax in each taxation year on the amount of its income for the year, including the net realized taxable capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to the Unitholders for the year. The Trust intends to allocate all of its income and net realized capital gains, so that the Trust will not generally be liable for income tax *(Note 14)*.

i) Unit-based compensation

Participants in the Trust Unit Incentive Plan have the option to either purchase the Units at the exercise price or to receive a cash payment equal to the excess of the market value over the exercise price. As a result, issued rights are considered to be stock appreciation rights (SAR) and are revalued at each period end date. The revaluation is calculated by computing the intrinsic value of the rights, which is done by taking the difference between the market value of the Units and the exercise price of the right at the period end date.

The Trust determines compensation expense for the Trust Unit Incentive Plan and the Unit Award Incentive Plan *(Note 10)* recognizing the intrinsic value in income and liabilities over the vesting period. After the rights have vested, further changes in the intrinsic value are recognized in income and liabilities in the period of change. As the expense is determined based on the period end price, large fluctuations, even recoveries, in compensation expense may occur. As the rights are exercised, cash payments are reflected against the liability previously recorded and any unit issuances are reflected as increases to Unitholders' capital.

The Trust has a Unit-based compensation plan and uses the fair-value method to record compensation expense with respect to stock options granted. The fair value of each option granted is estimated on the date of grant and a provision for the costs is provided for as contributed surplus over the term of the option agreement. The consideration received by the Trust on the exercise of share options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which could result in recoveries of the compensation expense.

Under the terms of the Trust Unit Incentive Plan, the exercise price of rights granted may be reduced in future periods based on the distributions made to Trust Unitholders.

j) Earnings per unit

Basic earnings (loss) per Trust unit are calculated using the weighted average number of Trust units and Exchangeable units outstanding during the period. Diluted per unit amounts reflect the dilutive effect of Trust units rights and unit awards outstanding. Diluted earnings per unit is calculated using the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase Trust units at the average market price during the periods. The weighted average number of Trust units outstanding is then increased by this change.

k) Adoption of new accounting polices

(i) On January 1, 2007, the Trust adopted CICA Handbook Section 1530, Comprehensive Income retroactively without restatement. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income is the change in the Trust's unitholders equity arising from transactions, events and circumstances with non-owner sources and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. There were no such components to be recognized for the year ended December 31, 2007, and therefore the Trust's loss and comprehensive loss for the periods were the same.

(ii) On January 1, 2007, the Trust retroactively without restatement adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. In accordance with this new standard, the Trust now classifies all financial instruments as either "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables," or "other financial liabilities." This new standard affected the Trust's treatment of deferred financing charges. Prior to the adoption of the new standard, financing charges relating to the Trust's debt were included in "Deferred finance charges" on the Trust's consolidated balance sheet and amortized against earnings over the life of the debt.

Under the transitional provisions of Handbook section 3855, the Trust's debt is now recorded at amortized cost using the effective interest rate method. The related financing charges have been offset against the principal amount of the debt. As a result of these changes, "Deferred finance charges" of $458,000, which were previously recorded as assets of the Trust, have been reclassified against "Current portion of debt" on the Consolidated Balance Sheets. Under these transitional provisions, the December 31, 2006 balances have not been restated.

The new financial instruments standard section 3855 establishes recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurements in subsequent periods depend on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables," or "other financial liabilities," as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method.

Cash and marketable securities are designated as "held-for-trading" and measured at carrying value, which approximates fair value due to the short-term nature of those instruments. Accounts receivable and the advance receivable are designated as "loans and receivables." Accounts payable and accrued liabilities, income taxes payable, debt and capital leases and finance contracts are designated as "other financial liabilities".

Risk management assets and liabilities are derivative financial instruments classified as "held-for-trading" unless designated for hedge accounting. The Trust has no risk management assets or liabilities at this time.

(iii) On January 1, 2007, the Trust retroactively without restatement adopted CICA Handbook Section 3865, Hedges. This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The Trust has not designated any hedging relationships. This new standard did not affect the Trust's annual consolidated financial statements.

(iv) The Trust also adopted Section 3251, Equity, which establishes standards for the presentation of equity and changes in equity during the reporting period, effective for fiscal years beginning October, 2006. Since there were no changes resulting from Section 1530, Comprehensive Income discussed above, Section 3251, Equity, has no impact on the consolidated financial statements of the Trust for the current reporting period. The Trust also adopted Section 3861 Financial Instruments – Disclosure and Presentation, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. This new standard did not affect the Trust's annual consolidated financial statements.

(v) The Trust also adopted Section 1506, Accounting Changes, the only impact of which is to require disclosure when an entity has not applied a new source of GAAP that has been issued but is not yet effective. The Trust will adopt Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments-Presentations on January 1, 2008. The only significant anticipated effect on the Trust's consolidated financial statements is incremental disclosures regarding the significance of financial instruments to the Trust's financial position and performance, and the nature, extent and management of risks arising from financial instruments to which the Trust is exposed.

(vi) As of January 1, 2008, the Trust will also be required to adopt CICA Handbook section 1535, Capital Disclosures, which requires entities to disclose their objectives, policies and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The Trust is assessing the impact of this new standard on its consolidated financial statements and anticipates that the main impact will be additional required disclosures.

(vii) As of January 1, 2008, the Trust will be required to adopt CICA Handbook Section 3031, Inventory. This new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after July 1, 2007. This new standard will have no impact on the Trust's consolidated financial statements.

l) Recent accounting pronouncements

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Trust continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Trust will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Trust is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. The Trust does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

3. Marketable securities

Marketable securities of $48,000 (2006, nil) are comprised of securities that have been acquired by the Trust from certain customers as settlement of accounts receivable. Marketable securities have been classified as held for trading as it is the Trust's intention to dispose of all such securities. All marketable securities are measured at fair value with changes in those fair values being recognized in net earnings.

4. Inventory

Inventory of $2.1 million (2006, $2.4 million) is comprised of coil tubing held for resale. Coil tubing is sold as a by-product of coil tubing services that are performed or as a stand alone product sale. In the year the Trust wrote off $453,000 (2006, $Nil) worth of inventory as Management has determined that the material is no longer usable or sellable.

5. Advance receivable

This advance receivable of $nil (2006, $1.3 million) represents advances made in 2006 to a company which is controlled by two former employees of the Trust. The Trust received $1.1 million in April and $143,000 in October, 2007. A write off of the remaining amount of $117,000 was recorded in the year.

6. Property, plant and equipment

As at December 31, 2007

($ thousands)	Cost	Accumulated Depreciation	Impairment Write-down	Ending NBV
Drilling rigs	$ 30,449	$ (1,006)	$ (5,299)	$ 24,144
Coil tubing stands	411	(99)	-	312
Field service equipment	36,225	(6,183)	(5,048)	24,994
Shop tools and equipment	1,687	(392)	-	1,295
Computer equipment	850	(294)	-	556
Transport Vehicles	13,690	(4,423)	-	9,267
Furniture and fixtures	384	(82)	(16)	286
Buildings	627	(32)	-	595
Rental equipment	5,992	(945)	(100)	4,947
Leaseholds	49	(13)	-	36
	$ 90,364	**$ (13,469)**	**$ (10,463)**	**$ 66,432**
Land	258	-	-	258
Assets under construction	5,882	-	-	5,882
	$ 96,504	**$ (13,469)**	**$ (10,463)**	**$ 72,572**

As at December 31, 2006

($ thousands)	Cost	Accumulated Depreciation	Impairment Write-down	Ending NBV
Drilling rigs	$ 29,856	$ (418)	$ -	$ 29,438
Coil tubing stands	411	(30)	-	381
Field service equipment	32,387	(1,799)	-	30,588
Shop tools and equipment	1,526	(118)	-	1,408
Computer equipment	542	(61)	-	481
Transport Vehicles	13,312	(1,519)	-	11,793
Furniture and fixtures	357	(17)	-	340
Buildings	581	(8)	-	573
Rental equipment	4,572	(159)	-	4,413
Leaseholds	37	(2)	-	35
	$ 83,581	**$ (4,131)**	**$ -**	**$ 79,450**
Land	258	-	-	258
Assets under construction	8,447	-	-	8,447
	$ 92,286	**$ (4,131)**	**$ -**	**$ 88,155**

At December 31, 2007, $1.3 million (2006, $2.9 million) of equipment is under capital leases for which $211,000 of accumulated depreciation was recognized (2006, $100,000). These capital assets are included in the appropriate property, plant and equipment assets classes and depreciated based on the specified rate for that asset class.

In 2007 the Trust has determined that due to the reduced oilfield activity in the western Canadian sedimentary basin, which has led to lower demand for the Trust's property, plant and equipment, the assets have become impaired by $10.5 million. The fair value of property, plant and equipment is based on an independent appraisal and the Trust's review of equipment utilization. The Trust has impaired field service equipment which consists primarily of vacuum trucks, tank trucks, coil tubing units and e-line units, as well as drilling rigs.

7. Goodwill and intangible assets

As at December 31, 2007 (\$ thousands)		**Cost**		**Impairment Write-down**		**Ending NBV**
Goodwill	$	6,289	$	(6,289)	$	-
	$	**6,289**	**$**	**(6,289)**	**$**	**-**

As at December 31, 2006 (\$ thousands)		**Cost**		**Impairment Write-down**		**Ending NBV**
Goodwill	$	154,674	$	(148,385)	$	6,289
	$	**154,674**	**$**	**(148,385)**	**$**	**6,289**

As at December 31, 2007 (\$ thousands)		**Cost**		**Accumulated Amortization**		**Impairment Write-down**		**Ending NBV**
Customer lists	$	7,008	$	(7,008)	$	-	$	-
Employee contracts		1,971		(1,971)		-		-
Intangible assets	**$**	**8,979**	**$**	**(8,979)**	**$**	**-**	**$**	**-**

As at December 31, 2006 (\$ thousands)		**Cost**		**Accumulated Amortization**		**Impairment Write-down**		**Ending NBV**
Customer lists	$	14,263	$	(1,942)	$	(7,844)	$	4,477
Employee contracts		2,560		(293)		-		2,267
Intangible assets	**$**	**16,823**	**$**	**(2,235)**	**$**	**(7,844)**	**$**	**6,744**

During the period, the Trust determined that goodwill was impaired as the estimated future cash flows are unable to support the value of these assets. Cash flows have decreased because demand for equipment has dropped significantly and as a result the Trust has revised future forecasted results. As well there has been a change in market fair value multiples for trusts, which has led to a decreased enterprise value of the Trust. In 2007, impairment for goodwill of $6 million (2006, $148 million) and has been recorded. Detailed segmented information of the goodwill and intangible impairment recorded in the period by the Trust is disclosed in the table presented in *Note 13*.

8. Debt

($ thousands)	2007	2006
Credit facilities(i)	$ 20,588	$ 40,000
Subordinated debt (ii)	22,500	-
Term debt (iii)	-	216
	43,088	40,216
Add: Bank indebtness	275	-
Less: current portion of debt	43,363	95
Long-term debt	$ -	$ 40,121

(i) Credit Facilities

a) The initial operating facility that the Trust entered into was 160-day bridge financing facility with a subsidiary of a Canadian chartered bank and was authorized to $28.8 million. The facility was obtained on August 4, 2006, and was secured via a first charge right on all fixed assets and a first floating charge on all other assets of the Trust and its subsidiary entities. The interest rate charged on the facility was 3.125% plus the Bankers' Acceptance rate for the applicable period and interest was payable on the 15th day of each month. The Trust incurred financing fees of $325,000 related to this credit facility, which were expensed in the period.

On October 17, 2006, the Trust amended the terms of this facility by converting it from a non-revolving to a revolving facility. The Trust was able to repay and borrow the principal amount without notice, bonus or penalty at any time prior to maturity. The facility was repaid in full on December 19, 2006, when the operating line noted in paragraph c) below was obtained.

b) The Trust also entered into a demand revolving credit facility on August 4, 2006 with a Canadian chartered bank which was authorized to $20 million. This facility was secured via a priority agreement between the Canadian chartered bank and the lender of the facility described in (a), which provided the bank with a first charge priority on all accounts receivable of the Trust and a second charge over all other assets. Interest was payable monthly and interest rates fluctuated based on a pricing grid that ranged from bank prime plus .25% to bank prime plus 1.375%, depending upon the Trust's funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio. The Trust incurred financing fees of $70,000 in relation to this credit facility which were expensed in the period. The facility was repaid in full on December 19, 2006, when the operating line noted in paragraph c) below was obtained.

c) The third operating facility entered into by the Trust was a 364-day syndicated revolving credit facility with three Canadian chartered banks effective December 19, 2006. Once the 364-day period had passed and if the facility was not renewed, it would term out over a three year period. The authorized borrowing amount under this facility was $80 million, of which $40 million was drawn as at December 31, 2006. Interest was payable monthly for borrowings through direct advances. Interest rates fluctuated based on a pricing grid and the type of drawing that was made by the Trust. For prime rate loans and U.S dollar loans, the interest rates ranged from bank prime plus .5% to bank prime plus 1.625%, depending upon the Trust's Funded Debt to EBITDA ratio. Under the credit facility, borrowings through the use of Bankers' Acceptances, LIBOR loans and standby letters of credit with maturities of 30 to 180 days were also available. Interest rates fluctuated based on the same pricing grid as documented above and ranged from the base rate of the debt obtained plus 2% to 3.125%. Security for the operating line was provided by a priority agreement that stated that, subject only to permitted liens which have priority by operation of law, the obligations and the lender risk management obligations ranked as the most senior secured debt of the borrower and guarantors.

On May 9, 2007 the Trust's maximum borrowing limit on the credit facility was reduced to $52 million and the interest rate charged on the credit facility was increased to prime plus 2.625%.

d) On October 4, 2007 the Trust successfully completed an amended and restated $35 million syndicated senior credit agreement. The amended and restated syndicated credit facility includes the same group of senior Canadian bank lenders as were party to the previous credit agreement. The new senior facility is secured by all of the assets of the Trust, matures on June 30, 2008 and bears interest at prime plus 2.625%.

The Trust's syndicated credit facility has the following two financial statement covenants:

1. Consolidated current assets to consolidated current liabilities is not less then 1.25 to 1
2. Cumulative adjusted consolidated EBITDA, less interest, taxes and lease payments shall be equal or greater than zero.

The Trust was not in compliance with its covenant at December 31, 2007 and has negotiated a waiver on this covenant breach *(Note 22).*

(ii) Subordinated debt

On October 4, 2007 in conjunction with the closing of the amended and restated credit facility, the Trust also entered into a $22.5 million loan with an entity substantially owned by a Director. The subordinated loan is subordinated to the amended and restated senior credit facility and bears interest of 9.5% for 3 months from closing and the 12% from and including the date which is three months and one day after closing until all obligations have been conditionally and irrevocably repaid in full. Interest costs are to be paid quarterly through the issuance of Trust units or cash and the loan was scheduled to mature on December 31, 2007. Accrued interest of $521,000 to December 31, 2007 was settled to the subordinated debt holder on January 4, 2008 through the issuance of Trust units *(Note 22).* The Trust has subsequently extended the loan to September 1, 2008 on revised terms *(Note 22).*

As part of the closing of the subordinated loan on October 4, 2007, the Trust granted 3 million warrants and 1.9 million Trust units to the lender. The warrants are to purchase Trust units with an exercise price of $1.68 per warrant expiring on April 4, 2009 *(Note 11).*

The credit facility balance is presented net of cash as at December 31, 2007 in the amount of $(275,000) (2006, $0) as all available cash is currently encumbered against the credit facility.

During the period ended December 31, 2007, the Trust fully amortized $486,000 related to financing charges of the credit facility replaced in October and expensed $193,000 for the new credit facility that was entered into on October 4, 2007.

At December 31, 2007, the Trust was in compliance with its debt covenants on the subordinated debt.

(iii) Term debt acquired

As part of the acquisition of 1044802 and 1044793 *(Note 21),* two term loans were acquired. The first term loan was originally issued on August 24, 2006, in the amount of $150,000. Principal of $4,334 was payable monthly over a period of 36 months. The interest charged on this term loan was prime plus 2% and was also payable monthly. The loan was secured by a truck with a net book value of $215,591 and the outstanding principal amount of this term loan was $137,499 as at December 31, 2006 and was repaid in full in 2007.

The second term loan was originally issued on September 1, 2005 in the amount of $135,000. Principal of $3,750 was payable monthly over a period of 36 months. The interest charged on this term loan was prime plus 2% and was also payable monthly. The loan was secured by a truck and a trailer with a net book value of $185,835 and $26,415 respectively at December 31, 2006. The outstanding principal amount of this term loan was $78,750 as at December 31, 2006 and was repaid in full in 2007.

9. Obligation under capital leases and financing agreements

The Trust leases vehicles and equipment under capital lease agreements with expiry dates ranging from February 2008 to June 2011. These contracts have various required monthly payments ranging from $117 to $12,309 per month. In addition, the contracts have varying interest rates that range from non-interest bearing to 10%. As at December 31, 2007 the principal and interest repayments on obligations under capital leases and financing agreements in each of the next five years are:

$ thousands	Payments due by period					
Capital lease obligations	Total	2008	2009	2010	2011	2012
Total future payments	941	422	322	147	50	-
Interest	103	59	31	12	1	-
Principal	838	363	291	135	49	-

10. Employee unit incentive plans

a) Trust Unit Incentive Plans

The Trust Unit Incentive Plan provides that the maximum number of Trust units reserved for issuance from time to time pursuant to the rights granted and outstanding thereunder at any time shall not exceed a number of Trust units equal to 10% of the aggregate number of (i) issued and outstanding Trust units; plus (ii) the number of units issuable upon exchange or conversion of outstanding exchangeable securities. Of the 2 million Trust units options outstanding as of December 31, 2007, 265,000 Trust unit options were granted to employees with an initial exercise price equal to ten dollars or greater and the maximum term of each option is 5 years. These Trust Unit options vest equally over four years commencing on the first anniversary of the grant date. 1.7 million Trust unit options were granted to employees with an initial exercise price equal to the prior 5 day weighted average price on the date of grant. These options have a maximum term of 5 years. The vesting period for 1.5 million of these options is 10% on the date of grant and the remaining 90% evenly over the next four years on the anniversary of the grant. The remaining 275,000 options vest equally over four years commencing on the first anniversary of the grant date.

The exercise price of Trust unit options granted are reduced by an amount up to the amount of cash distributions made on the Trust units subsequent to the date of grant of the respective Trust Unit option, provided the Trust's net operating cash flow for the month exceeds 0.833% of the Trust's recorded cost of capital assets less all debt, working capital deficiency (surplus) or debt equivalent instruments, depletion, depreciation and amortization charges, asset retirement obligations and any future income tax liability associated with such capital assets at the end of the month.

The Participants that were issued the 265,000 options at an initial exercise price of $10 have the option to either purchase the Units at the exercise price or to receive a cash payment equal to the excess of the market value over the exercise price. As a result, issued rights are considered to be stock appreciation rights (SAR) and are revalued at each period end date. The revaluation is calculated by computing the intrinsic value of the rights, which is done by taking the difference between the market value of the Units and the exercise price of the right at the period end date.

For the 1.7 million Unit options granted in 2007 the Trust has used the fair-value method to record compensation expense with respect to options granted. The fair value of each option granted is estimated on the date of grant and a provision for the costs is provided for as contributed surplus over the term of the option vesting agreement. The consideration received by the Trust on the exercise of options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which could result in recoveries of the compensation expense. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2007	**2006**
Risk-free interest rate (%)	3.94	-
Expected life (years)	5.00	-
Expected volatility (%)	50	-
Expected dividend yield	-	-
Fair value of options granted during the year ($/Unit)	.34 to .36	-

As at December 31, 2007, a total of 2 million Trust unit options were outstanding under the Trust Unit Incentive Plan at an average exercise price of $2.00.

The following summarizes the Trust units reserved for issuance under the Trust Unit Incentive Plan.

(thousands, except weighted average exercise price)	Options Outstanding (000's)		Weighted Average Exercise Price
Trust unit options outstanding as at August 4, 2006	-	$	-
Granted	2,291		9.58
Exercised	-		-
Forfeited or cancelled	(130)		9.54
Outstanding, January 1, 2007	2,161	$	9.58
Granted[1]	2,146		0.97
Exercised	-		-
Forfeited or cancelled[1]	(2,300)		8.16
Outstanding before exercise price reductions	2,007	$	2.00
Outstanding, December 31, 2007	2,007	$	2.00

Period ended December 31, 2007

Exercise price	Number outstanding at December 31, 2007	Options exercisable	Weighted average remaining life (years)
$0.74 - $0.77	1,742	147	5.0
$9.48 - $9.66	265	66	3.6
$ .74 to $ 9.73	2,007	213	4.8

Initial period ended December 31, 2006

Exercise price	Number outstanding at December 31, 2006	Options exercisable	Weighted average remaining life (years)
$9.54 - $10.16	2,161	-	4.6

The Trust recorded unit-based compensation expense and contributed surplus in respect of Trust unit options of $90,000 (2006 $nil) for the year.

[1] Included in the weighted average exercise prices is the reduction due to the January 2007 distribution that was declared by the Trust in the amount of $.065 per unit. Of the 2.3 million cancelled options, 1.9 million received the exercise price reduction and the remaining 400,000 did not as they were granted subsequent to January 2007. There has been no reduction in exercise price for any options that have been granted in the year ended December 31, 2007.

b) Unit Award Incentive Plan

As at December 31, 2007, a total of 13,000 awards ("Unit Awards") were outstanding under the Unit Award Incentive Plan. The Unit Award Incentive Plan provides for the issuance of up to 0.5% of the aggregate number of issued and outstanding Trust units, plus the number of Trust units issuable upon exchange or conversion of outstanding Exchangeable Units for a total of 157,000 reserved rights. Unit Awards vest annually over a four year period and upon vesting, entitle the holder to receive the number of Trust units subject to the award or the equivalent cash amount. The number of Trust units to be issued is adjusted at each distribution date for an amount approximately equal to the foregone distribution. The fair value associated with the Trust units granted under the Unit Award Incentive Plan is expensed in the statement of operations and deficit over the vesting period.

The following summarizes the Trust units reserved for issuance under the Unit Award Incentive Plan.

(thousands)	Options Outstanding (000's)
Outstanding, as at August 4, 2006	-
Granted	41
Exercised	-
Cancelled	(13)
Outstanding, January 1, 2007	28
Adjusted for distributions	2
Outstanding, January 1, 2007	30
Granted	-
Exercised	-
Cancelled	(17)
Outstanding, December 31, 2007	13
Adjusted for distributions	-
Total Trust Units issuable for Unit Awards	13

For the year ended December 31, 2007, the Trust recorded an expense and an accrued liability for the estimated cost associated with the Unit Award Incentive Plan of $3,000 (2006, $79,000). The expense includes the amount attributable to the 377 (2006, 1,880) units that were adjusted for forgone distributions on the basis of the fair value of the units on the relevant distribution record date.

11. Trust units

Authorized:
An unlimited number of Class A Trust units, Class B Exchangeable Units and Special Voting units. Special Voting Units shall not be entitled to any interest or share in the distributions or net assets of the Trust and shall be issued in conjunction with Exchangeable Units of the Investment Partnership.

Trust Units[1]

(thousands)	Units		Amount
Units issued in the period	3,160	$	31,601
Consideration for acquisitions[1]	14,852		147,799
Trust Units returned to treasury	(13)		(132)
Conversion of Exchangeable Units	35		353
Unit issue costs	-		(3,341)
Balance, December 31, 2006	18,034	$	176,280
Units issued in the period[3]	6,649		9,256
Conversion of Exchangeable Units	2,126		18,954
Trust Units returned to treasury[4]	(33)		(329)
Trust Units issuable for interest (Notes 8 and 17)	792		521
Unit issue costs	-		(168)
Balance, December 31, 2007	**27,568**	**$**	**204,514**

Exchangeable Units[2]

(thousands)	Units		Amount
Consideration for acquisitions	6,788	$	67,570
Exchangeable Units returned to treasury	(6)		(58)
Conversion of Exchangeable Units	(35)		(353)
Unit issue costs	-		-
Balance, December 31, 2006	6,747		67,159
Exchangeable Units returned to treasury[4]	(15)		(146)
Conversion of Exchangeable Units	(2,126)		(18,954)
Balance, December 31, 2007	**4,606**	**$**	**48,059**

Total units outstanding, December 31, 2007	**32,174**	**$**	**252,573**

[1]Of the total Trust units that were issued, 3.5 million are held in escrow. 3.4 million of these units will be released on August 4, 2008 and 115,055 will be released on October 6, 2008.

[2] Of the total Exchangeable Units outstanding at December 31, 2007, 86,290 are held in escrow and will be released on October 6, 2008

[3] The Trust has issued 4.7 million Units for cash and 1.9 million units as compensation for a commitment fee associated with subordinated debt issued by the Trust *(Note 8).*

[4] Trust units and Exchangeable units returned to treasury are for options that were issued to employees prior to the acquisition of companies in note 21 that were never paid for by the employees.

In connection with the issuance of the subordinated loan *(Note 8)*, the Trust granted 3 million warrants to the provider of the subordinated loan, an affiliate of a director. These warrants have an exercise price of $1.68 per Trust Unit and expire in April 2009. The trust has calculated the fair value of the warrants using the Black-Scholes model. The expense and the corresponding increase in contributed surplus that has been recorded in the period is $134,000 (2006, $nil). The fair value of each warrant granted is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions for grants as follows:

	2007
Risk-free interest rate (%)	4.13
Expected life (years)	1.50
Expected volatility (%)	50
Expected dividend yield	-
Fair value of options granted during the year ($/Unit)	0.04

The basic and diluted weighted average number of Trust units used in the calculation of loss per share for the year is 27.5 million. The following summarizes the calculation of the denominator for basic and diluted weighted average shares:

	Period ended December 31,	
(thousands)	**2007**	**2006**
Weighted average units - basic	27,482	18,253
Trust unit options exercisable for Trust units	-	-
Unit awards convertible to Trust units	13	30
Weighted average Trust units for diluted net earnings	27,495	18,283

For the calculation of the weighted average number of diluted Trust units outstanding for 2007, 13,000 (2006, 30,000) unit awards were excluded, as they were anti-dilutive and 2 million (2006, 2 million) Trust unit options were excluded as they were determined to be anti-dilutive *(Note 10)*.

Contributed surplus

During the period the Trust's contributed surplus has increased. The details of this increase are included in the following table:

	($thousands)
Opening contributed surplus, August 4, 2006	-
Units returned to treasury	190
Ending balance as of December 31, 2006	190
Fair value of warrants issued	134
Fair value of Trust Unit options	90
Trust Units and Exchangeable Units returned to treasury	475
Ending balance as of December 31, 2007	889

12. Cash distributions

The Trust declared one distribution of cash to Unitholders and Exchangeable Unitholders of record as at the close of business on the distribution record date as follows:

($ thousands, except per Unit amounts)

Distribution Period 2007	**Record Date**	**Distribution Date**	**Per Unit**	**Total**
January 1 to January 31	January 31, 2007	February 15, 2007	0.065	1,611
Total distributions during period			0.065	1,611
Accumulated distributions, beginning of period				11,246
Accumulated distributions, end of period				12,857

Distribution Period 2006	Record Date	Distribution date	Per Unit	Total
August 11 to August 31	August 31, 2006	September 15, 2006	0.0917	2,219
September 1 to September 30	September 29, 2006	October 16, 2006	0.0917	2,217
October 1 to October 31	October 31, 2006	November 15, 2006	0.0917	2,270
November 1 to November 30	November 30, 2006	December 15, 2006	0.0917	2,270
December 1 to December 31	December 31, 2006	January 15, 2006	0.0917	2,270
Total distributions during period			0.46	11,246
Accumulated distributions, beginning of period				-
Accumulated distributions, end of period				11,246

13. Segmented information

In the first quarter of 2007, the Trust restructured its internal operating segments to allow the Trust to more accurately review and manage the results of the overall entity. As part of this reorganization, certain revenue generating assets and liabilities have been transferred from one segment to another. In addition the segments of Coil Tubing and Completion Services have been combined into one segment, which is now called Downhole Services.

During the third quarter of 2007, the Trust disposed of all property, plant and equipment relating to its Pipeline Construction division *(Note 20)*. All of the operations of the Pipeline Construction division have been treated as discontinued operations. All remaining operating segments and the corporate segment operate in one geographic region, being western Canada. The Trust has identified reportable segments based on the type of service and the equipment that is used to perform the service. Revenue is generated in the identifiable segments from the following services:

Downhole Services - perforating, cleaning, logging, stimulation, installation of production and instrumentation strings, product sales made up of sales of coil tubing, swab rig services, cased-hole logging, cement bond logging, fracturing, tube-conveyed fracturing and other well completion and abandonment services

Transport - rig relocation and general oil and gas hauling.

Drilling - contract drilling services.

Production Services - crude oil and water hauling, vacuum units, steamers, hot-oilers and high pressure washers.

Rentals - oilfield equipment rental and leasing services.

Corporate - provides support services for each of the divisions in areas such as legal, operational, regulatory and financial reporting.

Twelve months ended December 31, 2007

($ thousands)	Downhole Services	Transport	Drilling	Production Services	Rentals	Corporate	Total
Loss from continuing operations	$(15,264)	$ (3,842)	$(6,256)	$ (2,218)	$(5,571)	$(10,818)	$ (43,969)
Revenue	16,087	6,012	10,866	5,979	5,416	-	44,360
Operating costs	17,816	5,577	10,506	5,026	4,656	-	43,581
Depreciation and Amortization	5,894	3,922	919	2,752	2,857	189	16,533
Interest on debt	-	-	-	-	-	4,082	4,082
Other interest and bank charges	25	1	(3)	58	4	2,190	2,275
Impairment of goodwill	2,620	-	-	-	3,669	-	6,289
Impairment of plant, property and equipment (PP&E)	4,954	16	5,299	89	105	-	10,463
Capital purchases	504	987	3,282	1,520	1,710	246	8,249
Net book value of property, plant and equipment	20,305	7,001	31,703	5,646	7,419	498	72,572
Total Assets[1]	24,079	7,617	33,865	6,639	8,232	965	81,397

Initial period ended December 31, 2006

($ thousands)	Downhole services	Transport	Drilling	Production Services	Rentals	Corporate	Total
Loss from continuing operations	(34,337)	(27,808)	(63,656)	(33,847)	184	(3,608)	(163,072)
Revenue	$ 7,582	$ 3,609	$ 6,019	$ 2,389	$ 2,843	$ -	$ 22,442
Operating expenses	6,714	2,657	5,420	1,940	1,804	-	18,535
Depreciation and amortization	1,525	1,796	1,202	1,220	412	27	6,182
Interest on long term debt	-	1	-	23	4	909	937
Other interest	204	3	328	69	-	413	1,017
Impairment of goodwill	32,696	24,776	58,875	32,038	-	-	148,385
Impairment of intangibles	375	2,186	3,912	960	411	-	7,844
Capital purchases	7,941	3	6,686	3,040	1,360	474	19,504
Goodwill	2,620	-	-	-	3,669	-	6,289
Total assets	36,178	12,633	39,721	24,760	12,191	2,842	128,325
NBV of intangibles	1,897	1,625	-	1,952	1,270	-	6,744
NBV of property, plant and equipment	23,799	9,122	34,702	14,144	5,941	447	88,155

[1] The pipeline division that was sold in August (Note 20) has total assets of $497,000, consisting of accounts receivable not collected as of December 31, 2007.

14. Income taxes

On June 22, 2007, legislation concerning the taxation of certain publicly traded trusts and partnerships received Royal Assent, substantively enacting the changes. The new regime imposes a tax of 31.5% on distributed trust income derived from certain sources beginning in 2011. On December 14, 2007 legislation was passed dropping the tax rate from 31.5% to 28%.

As a result, the Trust has recorded a future tax liability in the year ended December 31, 2007. Under the liability method of accounting for future income taxes, future income tax assets and liabilities are determined based on temporary differences. Temporary differences are differences between the accounting basis and the tax basis of the assets and liabilities on the balance sheet measured using current or substantively enacted tax rates and laws expected to apply when these differences reverse.

		Twelve months ended December 31, 2007
Property, plant and equipment	$	6,717
Share issue costs		(1,280)
Loss carry forward		(7,825)
		2,388
Valuation allowance		(2,388)
Future income tax asset	$	-

($ thousands)		Twelve months ended December 31, 2007
Earnings before income taxes	$	(43,914)
Federal and provincial statutory rates		31.5%
Expected income tax recovery		(13,833)
Adjusted for the effects of:		
Non-deductible expenses		116
Other		(208)
Impairment of goodwill and non taxable portion of capital gains		3,982
Initial recognition of Trust's temporary differences		7,724
Valuation allowance		2,388
Actual income tax expense	$	169

The Trust has recorded a valuation allowance for the income tax asset noted above as the Trust has determined that it is not currently more likely than not that sufficient future taxable income will be available to allow for the tax asset to be realized.

($ thousands)	For the period ended December 31,			
		2007		2006
Undepreciated capital costs	$	39,500	$	44,921
Loss carryforwards [1]		31,300		9,449
Equity issue costs		2,455		3,341
Debt issue costs		2,100		358

[1] These expire in the taxation years ending December 31, 2026 - 2027.

The Trust has added $10.2 million to its tax pools since December 31, 2006.

During the year, the Trust has incurred current income tax expenses of $169,000. These expenses relate to reassessments for the companies acquired in 2006.

15. Financial instruments

Fair Values

Financial instruments of the Trust consist of cash, accounts receivable, advance receivable, marketable securities, accounts payable and accrued liabilities, income taxes payable, distributions payable, obligations under capital leases and finance contracts and debt.

The net carrying value of cash, accounts receivable, net of the allowance for doubtful accounts, advance receivable, marketable securities, accounts payable and accrued liabilities, income taxes payable and distributions payable, approximates fair value due to the short-term nature of these instruments.

The carrying value of debt and obligations under capital leases and finance contracts approximate their fair value as they bear interest rates consistent with current market lending rates for similar instruments.

Credit risk and credit concentration

The majority of the Trust's revenues and trade accounts receivable are from entities in the oil and gas industry and, as such, the Trust is exposed to many of the risks associated with that industry.

Concentration of credit risk is mitigated to the extent possible by limiting concentrations to credit worthy clients and a focus to continue to broaden the customer base. The Trust's largest customer accounts for 30% (2006, 18%) and the Trust's five (2006, five) largest customers account for 46% (2006, 52%) of operating revenue for the period ended December 31, 2007. In addition, as at December 31, 2007, the five (2006, five) largest accounts receivable balances account for 34% (2006, 47%) of all receivables and one customer has a balance in excess of 10% of the total accounts receivable balance.

Interest rate risk

The Trust is exposed to fluctuations in interest rates on its debt. The Trust will be exposed to higher interest costs if the average prime rate should increase.

16. Commitments

The Trust is committed to future minimum payments under operating lease contracts for equipment, vehicles, office and shop space of $5.7 million. The expiry dates of these obligations range from January 2008 to November 2012.

The required future commitment payments as at December 31, 2007 are as follows:

$ thousands	Payments due by period					
	Total	2008	2009	2010	2011	2012
Operating lease obligations	5,691	1,899	1,514	1,213	759	306

17. Related party transactions

During 2007, the Trust incurred expenses of $462,000 (2006, $211,000) relating to the rental of land, buildings and equipment owned by certain officers who are also unitholders of the Trust. In addition, the Trust has incurred expenses of $12,500 (2006, $25,000) in the normal course of business related to accounting services performed by principals, and officers of the Trust. The Trust has incurred legal fees with a legal firm in which one of the Trust's directors is a partner in the amount of $496,000 (2006, $930,000). These fees relate to work completed for the rights offering, credit facility and general corporate matters. Of these fees $36,000 (2006, $876,000) is included in accounts payable as at December 31, 2007. The amounts of these transactions were completed at exchange values which approximate fair values.

The Trust has also entered into a $22.5 million subordinated loan with an entity substantially owned by a Director (Note 8). As at December 31, 2007 the outstanding balance of this loan is $22.5 million. In addition, accrued interest of $521,000 *(Note 22)* is outstanding as at December 31, 2007 which was settled with Trust units in January 2008.

18. Comparative information

The Trust was created pursuant to a Trust Indenture dated June 23, 2006. The Trust commenced operations on August 4, 2006 and as such the comparative information provided only includes 150 operating days for the period ended December 31, 2006. In certain circumstances the Trust has amended the presentation of certain comparative balances to conform to the presentation for the year ended December 31, 2007.

19. Supplementary cash flow information related to the statements of cash flows

($ thousands)	Period ended December 31,			
Changes in non-cash working capital relating to operating activities		**2007**		**2006**
Accounts receivable	$	12,642	$	(18,602)
Inventory		310		(2,418)
Prepaid expenses and deposits		(308)		(513)
Marketable securities		(48)		-
Other current assets		1,310		-
Accounts payable and accrued liabilities		(8,057)		11,587
Income taxes payable		(3,029)		3,094
	$	2,820	$	(6,852)
Less: Non cash working capital acquired		-		8,123
	$	2,820	$	1,271

($ thousands)	Period ended December 31,			
Changes in non-cash working capital relating to continuing financing activities		**2007**		**2006**
Accounts payable	$	120	$	-

($ thousands)	Period ended December 31,			
Changes in non-cash working capital relating to continuing investing activities		**2007**		**2006**
Accounts payable	$	328	$	-

($ thousands)	Period ended December 31,			
Changes in non-cash working capital relating to discontinued investing activities		**2007**		**2006**
Accounts receivable	$	(385)	$	-

20. Discontinued operations

Effective August 31, 2007, the Trust closed the sale of all property, plant and equipment relating to its pipeline division for net proceeds of $3.8 million.

Revenue from discontinued operations for the eight month period ended August 31, 2007 was $4.5 million (2006, $6.8 million). Net loss from discontinued operations for the period ended December 31 2007 was $114,000 (2006, Net gain of $200,000).

The gain on sale of the assets of discontinued operations was based on net cash proceeds of $3.8 million. The Trust received $3.46 million cash on September 5, 2007 and the remaining $385,000 is expected to be received by the Trust in 2008. The net book value of the pipeline assets that were sold on August 31, 2007 was $2.4 million. After transaction costs of $200,000, the Trust recorded a gain of $1.2 million. In July, the Trust sold additional assets for net cash proceeds of $68,000. The net book value of these assets was $217,000 as a result the Trust has recorded a loss of $147,000. For the year ended December 31,

2007 the Trust has recorded a net gain on the sale of all assets of $1.1 million ($nil of tax). At December 31, 2007, no current income taxes on the gain have been recorded as the Trust has sufficient loss carry forwards to eliminate any tax payable.

21. Business acquisitions

a) On August 4, 2006, the Trust acquired 100% of the issued and outstanding common shares of the following private companies: Austin's Transport (1990) Ltd. ("Austins"), Strata Completions Limited ("Strata"), Ammonite Assets Inc. ("Ammonite"), Caliber Energy Services Corp. ("Caliber"), Brantfords Consolidated Inc. ("BCI") and Brantfords Consolidated Ltd. ("BCL"). These acquisitions were accounted for by the purchase method. The results of the operations of the acquired companies have been included in the consolidated financial statements from the date of acquisition.

The total purchase consideration was 14,449,649 Trust units valued at $144.5 million and 6,615,496 Exchangeable Units valued at $66.2 million less the cash acquired of $70,000 for a total purchase consideration of $210.6 million.

A summary of the allocation of the purchase price based on the fair value of the net assets acquired and the liabilities assumed follows:

($ thousands)	Strata	Caliber	Ammonite	BCI	BCL	Austins	Totals
Net working capital acquired	$ 610	$ 2,911	$ 607	$ 1,079	$ 567	$ 2,800	$ 8,574
Property, plant and equipment	5,015	12,009	28,979	6,507	5,230	10,300	68,040
Intangible assets	552	2,086	4,491	1,685	1,749	4,426	14,989
Debt assumed, including current portion	(3,305)	(8,790)	(12,491)	(4)	(751)	-	(25,341)
Obligations under capital leases	(40)	-	(52)	(976)	(852)	(15)	(1,935)
Due to related parties	-	(825)	-	-	-	(3,927)	(4,752)
Goodwill	9,115	26,202	58,875	20,969	11,069	24,776	151,006
Fair value of net asset acquired	**$ 11,947**	**$ 33,593**	**$ 80,409**	**$ 29,260**	**$ 17,012**	**$ 38,360**	**$ 210,581**
Purchase Price Paid:							
Bank indebtness [1]	$ (149)	$ (389)	$ (194)	$ 650	$ 238	$ (226)	$ (70)
Trust units	8,467	20,828	56,422	20,027	11,742	27,010	144,496
Exchangeable Units	3,629	13,154	24,181	8,583	5,032	11,576	66,155
Purchase Consideration:	**$ 11,947**	**$ 33,593**	**$ 80,409**	**$ 29,260**	**$ 17,012**	**$ 38,360**	**$ 210,581**

[1] Bank indebtedness assumed as part of the working capital of the acquired companies.

b) On October 6, 2006, the Trust acquired 100% of the issued and outstanding common shares of the following private companies: 1044802 Alberta Limited ("1044802") and 1044793 Alberta Limited ("1044793") known collectively as "Elite". These acquisitions were accounted for by the purchase method. The results of the operations of the acquired companies have been included in the consolidated financial statements from the date of acquisition.

The total purchase consideration was 402,688 Trust units valued at $3.3 million and 172,581 Exchangeable Units valued at $1.4 million as well as cash of $5 million for a total purchase consideration of $9.7 million.

A summary of the allocation of the purchase price based on the fair value of the net assets acquired and the liabilities assumed follows:

($ thousands)		Elite
Net working capital acquired	$	(451)
Property, plant and equipment		4,898
Intangible assets		1,834
Debt assumed, including current portion		(233)
Goodwill		3,668
Fair value of net asset acquired	**$**	**9,716**
Purchase Price Paid:		
Cash[1]	$	4,926
Trust Units		3,302
Exchangeable Units		1,416
Transaction Costs		72
Purchase Consideration:	**$**	**9,716**

[1] Cash paid less cash acquired as part of working capital of the acquired companies.

The Trust has allocated goodwill acquired in the above acquisitions to each of its divisional segments as follows:

($ thousands)	Downhole Services	Transport	Drilling	Production Services	Rentals	Corporate	Total
Goodwill	35,317	24,776	58,875	32,038	3,668	-	154,674

22. Subsequent events

On January 4, 2008 the Trust issued 792,271 units in exchange for interest that was accrued on the $22.5 million subordinated loan from an entity substantially owned by a Director. The units were issued to settle $521,000 of interest that was accrued during the period of October 4, 2007 to December 31, 2007.

On March 7, 2008 the Trust purchased 148 flow back tanks and related equipment for a consideration of $750,000.

On March 18, 2008 the Trust entered into a take or pay agreement with an intermediate oil and gas producer for a telescopic double drilling rig that is currently under construction. The agreement provides for a commitment of 200 days per year for two years and a separate cash payment of $2.75 million to the Trust, half of which was received on March 18, 2008 with the remainder due on delivery of the completed rig anticipated in the third quarter of 2008. The costs to complete this rig, estimated at approximately $5 million, will be financed partly with the aforementioned cash payment, with the remainder from the senior credit facility.

On March 20, 2008 the Trust has an agreement in principle with an entity controlled by a director of the Trust ("the Lender") to extend the terms of the subordinated debt facility, to increase the subordinated facility and other related amendments *(Note 8ii)*. The amended terms are as follows:

1. The new maturity date will be September 1, 2008.

2. The amount of the facility will be increased from $22.5 million to $27.5 million. of which the Trust currently has $22.5 million drawn on this facility *(Note 8ii)* the remaining $5 million will be able to be drawn for capital expenditures and strategic acquisitions as agreed to by the entity substantially owned by a director.

3. interest on the facility will be payable quarterly at a rate of 12% per annum but: (i) if the ratio of the Trust's "Cash Flow" to "Net Debt" in the Trust's quarterly financial statements for the three months ended March 31, 2008 does not exceed 46%; or (ii) if the ratio of the Trust's "Cash Flow"

to "Net Debt" in the Trust's quarterly financial statements for the three months ended June 30, 2008 does not exceed negative 17%; or (iii) if the ratio of the Trust's "Cash Flow" to "Net Debt" in the Trust's quarterly financial statements for the six months ended June 30, 2008 does not exceed 23%, the interest rate will become 15% in the subsequent quarter;

4. interest will be payable in cash (subject to approval of the Trust's secured lenders) or through the issuance of Trust units at option of the lender to be issued at a 10% discount to the 10 day weighted average trading price of the Trust units on the Toronto Stock Exchange (the "**TSX**") (as calculated for the ten trading days immediately prior to the interest payment date);

5. as consideration for extending the term and increasing the size of the subordinated facility, the lender will be paid a fee equal to 2.75% of the Facility commitment (being 2.75% of up to $27.5 million, or $756,250), payable at closing through the issuance of Trust units issuable at a price equal to a price that reflects the 10% discount to the 10 day weighted average trading price on the TSX (as calculated for the ten trading days immediately prior to closing); and

6. The lender will have the right to convert up to 15% of the outstanding loan balance to Trust units at a conversion price of $0.80 per Trust Unit from time to time until the facility is repaid in full.

As noted in Note 8i the senior lenders have agreed to temporarily waive the financial covenant for the period ended December 31, 2007. The covenant will recommence for the period ended March 31, 2008. As a condition of this waiver the Trust has agreed to reduce the maximum amount of the credit facility to $29 million effective March 31, 2008 and further reduce the limit to $25 million on June 1, 2008. The Trust will also pay a waiver fee of 100 basis points on $29 million ($290,000) with 75 basis points of that fee ($217,500) refundable if the Trust is in compliance with the covenant as at March 31, 2008.